

**ECONOMICS 136**

**Financial Economics**  
**TuTh 2:00-3:30**  
**145 Dwinelle**

**Instructor:** Professor Roger Craine  
619 Evans Hall  
642-3021  
Office Hours: Wednesday 2:00 to 4:00

**Course Home Page:** <http://emlab.berkeley.edu/users/craine/index.html>  
Notes, Problem sets and solutions, announcements  
posted on course home page

**Required Texts:** Bodie, Zvi, Alex Kane, and Alan J. Marcus, *Investments*, 1999,  
Irwin/McGraw-Hill  
Craine, Roger, *Reader: Economics 136*, 2000  
to be purchased at COPY CENTRAL, 2560 Bancroft.

**Recommended:** Malkiel, Burton, *A Random Walk Down Wall Street*, 1999, W.W.  
Norton  
*www.stocktrak.com acct (start Sept. 15) \$21.00*

**Supplementary Readings:** on Reserve at Moffitt Library.

**Grading:**

Exams			
	First Exam	20%	<del>September 30</del>
	Second Exam	20%	November 3
	Final	45%	<del>December 15</del>
Problem Sets	15%	(REALLY)	

<u>Week of</u>	<u>Topic</u>	<u>Reading</u>
	Introduction and Review	
August 29	Financial Markets Returns: Continuous Compounding	Bodie, Part I, pp 1-67, Appendix C 5
Sept 5	Time Value of Money Quantitative Review	Reader, B&M C 4 Bodie, Appendix A p892

## Finance

### Expectations Models: Time-Series Properties of Returns

September 12	Principles of Asset Valuation Random Walk Model of Stock Prices Market Efficiency	Reader, B&M C 7 Reader, Craine, Ch 5 Bodie, Ch 12
September 19	Expectations Models: Random Walk and the Expectations Theory of Interest Rates	Reader, Ch. 5 Bodie, Ch 15
September 26	Bubbles Irrational Exuberance Efficient Markets & Rational Bubbles Financial and Real Assets  Recommended: Malkiel	In Reader Shiller, C 1 Craine, C 6 Craine, C 3  C 1-7
October 5	<i>First exam</i>	

### Risk Premiums: Cross-Section Properties of Returns

October 10	Risk vs. Expected Return A Look at the Data Tastes: Risk Aversion	Bodie, Ch 5 Bodie, Ch 6
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### Portfolio Theory: Individual Behavior

October 17	A Simple Allocation Model	Bodie, Ch 6 & Ch 7
October 24	Optimal Risky Portfolios	Bodie, Ch 8
October 31	<b>Capital-Asset Pricing Model: Market Equilibrium</b>  Recommended: Malkiel	Bodie, Ch 9  Ch 8-9

**November 9**     *Second Exam*

### Financial Derivatives

November 14	Future & Forward Contracts	Bodie, Ch 22
November 21	Options	Bodie, Ch 20 Reader, Ch 7

November 28	More Options	Bodie, Ch 21
December 5	Synthetic Options: Bankers Trust	Reader

### FINAL EXAM

**December 14, Thursday 12:30-3:30**

#### Supplementary Readings:

Bodie, Zvi and Robert C. Merton, 2000, *Finance*, Prentice-Hall, Upper Saddle River, NJ.

Brealey, Richard A. and Stewart C. Myers, 1999, *Principles of Corporate Finance*, McGraw-Hill, New York.

Glassman, James K. and Kevin A. Hassett, 2000, *Dow 36,000*.

Hull, John C., 1998, *Introduction to Futures and Options Markets*, Prentice-Hall, Upper Saddle River, NJ.

Saunders, Anthony, 1997, *Financial Institutions Management*, Irwin, Chicago, IL.

Shiller, Robert J., 2000, *Irrational Exuberance*, Princeton University Press, Princeton, NJ.

Sharpe, William F., Gordon J Alexander and Jeffery V. Bailey, 1999, *Investments*, Prentice-Hall, NJ.