

Economics 322: Financial Markets and Risk Management.

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The course introduces standard theories and evidence on stock, bond and option prices and trading strategies. It shows how portfolio diversification can provide benefits for investors; why it is difficult for the average investor to predict stock price movements; presents basic models of stock returns, arbitrage pricing and option pricing; provides an introduction to bond pricing; and introduces the Efficient Markets Hypothesis and its limitations. The course will include discussion of the 2007-9 Financial Crisis, the economic/financial consequences of various policies to combat Covid-19 and the currently evolving economic and financial stagflation.

As the term progresses, various web-based, newspaper and academic articles will be posted on the course website. These postings will be chosen to complement the course reflecting recent financial events.

Main Text:

Bodie, Kane, Marcus, Switzer, Boyko, Panasian, Stapleton, *Investments*, Tenth Canadian Edition. McGraw-Hill, 2022. We will refer to it below as BKM.

This is the main text. As the book has enough material for two semesters, we will cover the main topics/chapters as outlined below.

Other Reference:

B. Malkiel, *A Random Walk Down Wall Street: The Time-Tested Strategy for Successful Investing*, Norton, 2020 edition.

This book is entertaining and full of practical insights that complement the main text and the course.

Other references, articles etc. on specific topics will be provided online where appropriate.

Weekly Exercises:

There will be weekly exercises for practice.

Evaluation: Midterm 50%. Final 50%.

Before the midterm and final exams, I will provide a hint sheet on topics that will be on the exams.

Topics:

Note: This list of topics is more than we can cover in the course. As we proceed I will edit the later topics to be covered, adapting to time constraints and current events.

PART I: INTRODUCTION

BKM Ch.1 The Investment Environment

BKM Ch.2 Financial Markets, Asset Classes and Financial Instruments

BKM Ch.3 How Securities Are Traded

BKM Ch.4 Mutual Funds and Other Investment Companies

PART II: PORTFOLIO THEORY AND PRACTICE

BKM Ch.5 Risk, Return, and the Historical Record

BKM Ch.6 Capital Allocation to Risky Assets

BKM Ch.7 Efficient Diversification

BKM Ch.8 Index Models

PART III: EQUILIBRIUM IN CAPITAL MARKETS

BKM Ch.9 The Capital Asset Pricing Model

BKM Ch.10 Arbitrage Pricing Theory and Multifactor Models of Risk and Return

BKM Ch.11 The Efficient Market Hypothesis

BKM Ch.12 Behavioural Finance and Technical Analysis

BKM Ch.13 Empirical Evidence on Security Returns (**Omit: Too Advanced**)

PART IV: FIXED-INCOME SECURITIES

BKM Ch.14 Bond Prices and Yields

BKM Ch.15 The Term Structure of Interest Rates

BKM Ch.16 Managing Bond Portfolios

PART V: SECURITY ANALYSIS

BKM Ch.17 Macroeconomic and Industry Analysis

BKM Ch.18 Equity Valuation Models

BKM Ch.19 Financial Statement Analysis

PART VI: OPTIONS, FUTURES, AND OTHER DERIVATIVES

BKM Ch.20 Options Markets: Introduction

BKM Ch.21 Option Valuation