

**6<sup>th</sup> SEMESTER**  
**SKILL ENHANCEMENT COURSE (SEC)**  
*(ECONOMICS)*

**ECO617S: FINANCIAL ECONOMICS**

**CREDITS: THEORY: 2, TUTORIAL: 2**

***Course Description:***

*This course introduces students to the economics of finance. The course is designed to impart the essential aspects of financial asset valuation. The course will impart skills that will be useful in a variety of business settings including investment banks, asset management companies and in the field of financial and business journalism.*

**THEORY (2 CREDITS)**

**Unit I Financial Markets and cash-flow streams**

Financial Markets- concept, classification and functions; Instruments of developed money and capital markets; characteristics of Financial Instruments; Financial derivatives.

Basic theory of interest; discounting and present value; internal rate of return; bond prices and yield.

**Unit II: Capital Asset Pricing Model (CAPM)**

The capital market line; the capital asset pricing model; the beta of an asset and of a portfolio; Security market line; use of the CAPM model in investment analysis and as a pricing formula.

**TUTORIALS (2 CREDITS):**

Financial economics - meaning and scope  
The term structure of interest rates  
Portfolios of asset liability management.  
Introduction to CAPM

**READINGS**

1. David G. Luenberger, Investment Science, Oxford University Press, USA, 1997.
2. Richard A. Brealey and Stewart C. Myers, Principles of Corporate Finance, McGraw- Hill, 7th edition, 2002.
3. Burton G. Malkiel, A Random Walk Down Wall Street, W.W. Norton & Company, 2003.
4. Simon Benninga, Financial Modeling, MIT Press, USA, 1997.