

BOSTON COLLEGE  
Department of Economics

EC 362  
Financial Markets  
Fall 1996  
Prof. Christopher Baum

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Office Hours: F 2-4  
& by appt.  
Syllabus available on the Web:  
<http://fmwww.bc.edu/EC/>

Required texts: (1) Dubofsky, *Options and Financial Futures: Valuation and Uses*.  
(2) Daily issues, *Wall Street Journal*; a semester's subscription is highly recommended.

Requirements: grades will be based on:  
20% Midterm examination    30% Final examination  
20% Assignments                30% Empirical research project

Goals and purposes: This course is designed to familiarize economics majors with the major instruments and institutions of U.S. financial markets, focusing particularly on “derivatives” markets (futures, options, swaps, etc.) The course will require significant individual research of an empirical nature into an aspect of those markets. EC362 should be viewed as complementary (but not a substitute) to EC361 (Monetary Theory and Policy), EC380 (Capital Theory and Finance) and EC395 (Real Estate Finance). Prerequisites include completion of intermediate theory (EC201,202, or 401,402), and statistics (EC151). As empirical research is a sizable element of the course, econometrics (EC228, EC328 or EC428) would be helpful but is not required.

Policy statement: Absolutely no makeup examinations. Assignments – especially the term project – will not be accepted after their announced due dates. It is your responsibility to be familiar with the College's policy on academic integrity and intellectual honesty, especially as it applies to the preparation of research papers.

### **Empirical Research Project**

The term paper will be an empirical research paper, in which you research a topic of interest using data from the financial markets which you gather and manipulate. I will try to provide some suggested topics, and will expect you to discuss your topics with me prior to doing the major work on the paper. This is to be an analytical paper, rather than purely library research, *which must make use of appropriate empirical techniques to study some relevant data on the topic.*

I cannot stress strongly enough that papers which do not contain some first-hand analysis of data are *not acceptable*, and will not lead to an acceptable grade in the course. A good model for such a paper can be found in any of the economics or finance journals which publish applied work.

You may use any set of research tools you choose for the paper; many students have used a spreadsheet such as Excel to produce tables, compute statistical results, and produce graphs. If you have familiarity with other computer programs, feel free to use them. Warning: most of the data you might need for a project in this area will have to be collected and input “by hand” from the *Wall Street Journal* or industry yearbooks. This will involve a considerable amount of time and effort; budget your time accordingly. Please note that if you do not have a clear and acceptable proposal for this research project by the date noted below, it is very unlikely that you will meet the deadline for paper completion. That deadline is firm, and papers handed in after that deadline are will be graded subject to a sizable discount for tardiness. Take the proposal deadline seriously!

The class will meet for 26 lectures and one midterm examination. The final examination will be comprehensive. Tentative topics are given below. You are expected to have prepared for each lecture prior to the class meeting.

### TENTATIVE OUTLINE

<u>lectures(dates)</u>	<u>Chapter / Topics</u>		
1	3 Sep	1	Introduction
2-3	5, 10 Sep	11	Introduction to Futures
4-6	12-24 Sep	12	Pricing Theory
7-8	26 Sep, 1 Oct	13	Hedging
9-10	3, 8 Oct	14	Stock Index Futures
11-12	10, 15 Oct	15	Debt Instruments
	<b>17 Oct</b>		<b>MIDTERM EXAMINATION (ch. 1, 11-15)</b>
13-14	22, 24 Oct	16	Short-term Interest rate futures
	<b>24 Oct</b>		<b>RESEARCH PROJECT PROPOSAL due</b>
15-16	24, 29 Oct	17	Treasury bond/note futures
17-18	31 Oct, 5 Nov	18	Foreign exchange futures
19-20	7, 12 Nov	2	Introduction to Options
21-22	14, 19 Nov	3-5	Strategies, Arbitrage restrictions, Put-call parity
23-24	21, 25 Nov	6	Binomial option pricing
25-26	3, 5 Dec	7	Black-Scholes option pricing and Delta

#### **Research Projects:**

**DUE AT 5:00 PM, Friday 6 December, Carney 136 mailbox**

