

DARTMOUTH COLLEGE
Department of Economics

Economics 36
Theory of Finance

Professor Samwick
Fall 2007

Office Hours:

My regular office hours are Wednesday afternoons from 3:00 – 5:00 p.m. in my Economics Department office, Rockefeller 322. I am also available outside these scheduled office hours by appointment. Please make all appointments by e-mail. Note that on some occasions, my work at the Rockefeller Center or on College committees may require these office hours to be rescheduled. Please verify office hours each week at the course's Blackboard page.

Course Description:

Economics 36 is an introduction to the fundamental concepts of financial theory and the methods that are used to understand the financial markets and corporate finance. Underlying all of finance is the impact of time and uncertainty on the valuation of economic opportunities. Topics to be discussed include capital budgeting decision of firms, portfolio theory, financial market efficiency, option pricing, and problems of asymmetric or incomplete information.

Prerequisites: Economics 10, 21, and 26; good quantitative skills

Course Requirements and Grading:

The course grade is determined as follows:

- 1) Exams: There will be two midterms worth 20 percent each, held in class on October 23 and November 15, and a final exam worth 30 percent, held during exam period (December 7 at 11:30 a.m.). All students are expected to take the exams on the scheduled dates. Any student needing to do otherwise must submit a written request to do so by the end of class on October 9.
- 2) Problem Sets: There will be six problem sets, graded on a scale of 0 to 4 points based on the effort shown to complete all of the problems correctly. Each point earned represents a percentage point of the course grade, up to a maximum of 20 points. All problem sets must be turned in at the beginning of the class period or by the time specified in the Course Schedule below. When a student is unable to attend class, the problem set should be turned in before the beginning of the class period. Late or illegible problem sets will not be accepted.
- 3) Class Participation: Regular attendance and positive contributions to classroom discussions account for the remaining 10 percent of the course grade.

Required Readings:

Brealey, Richard A., Stewart C. Myers, and Franklin Allen. *Principles of Corporate Finance*. 8th ed. (New York: McGraw Hill, Inc., 2006). [Chapters marked as B# on Course Outline]

Journal Articles [Marked as J# on Course Outline, Posted to Blackboard Page]

[1] Shleifer, Andrei and Lawrence H. Summers, "The Noise Trader Approach to Finance," *Journal of Economic Perspectives*, Vol. 4, No. 2 (Spring 1990): 19-33.

[2] Bernheim, B. Douglas and Adam Wantz (1995). "A Tax-Based Test of the Dividend Signaling Hypothesis," *American Economic Review*, Vol. 85, No. 3, 532-551.

Other Readings (Not Required But Very Good):

Malkiel, Burton G. (1999). *A Random Walk Down Wall Street*. New York: Norton. (On Reserve. Also available electronically at: <http://libcat.dartmouth.edu/record=b3097580>)

Shiller, Robert J. (2005). *Irrational Exuberance*. Princeton: Princeton University press. (On Reserve)

Buffett, Warren. *Letters to Shareholders*. <http://www.berkshirehathaway.com/letters/letters.html>.

Additional Information:

Class Meetings: Rockefeller 1, TTh 10:00 – 11:50 a.m. (x-period W 3:00-3:50 p.m.) and TTh 2:00 – 3:50 p.m. (x-period W 4:15 – 5:05 p.m.)

Class Materials: Course materials are accessible to students at www.dartmouth.edu/~blackboard.

Honor Principle: All exams will be closed-book, closed-note, and timed. Any student giving or receiving assistance during an exam violates the Academic Honor Principle. Studying and doing problem sets with classmates is encouraged. When there is collaboration on problem sets, each student must submit his or her own set of solutions and must acknowledge collaborators on the first page of the solutions.

Equal Access: Students with disabilities enrolled in this course and who may need disability-related classroom accommodations are encouraged to make an appointment to see me before the end of the second week of the term. All discussions will remain confidential, although the Student Accessibility Services office may be consulted to discuss appropriate implementation of any accommodation requested.

Religious Observances: Some students may wish to take part in religious observances that occur during this academic term. If you have a religious observance that conflicts with your participation in the course, please meet with me before the end of the second week of the term to discuss appropriate accommodations.

Course Schedule:

Date	Topic	Readings (to be done in advance when possible)	Problem Sets (Due at the beginning of the specified class)
Th 9/27	Introduction; Present Value	B 1-3	
T 10/2	Valuing Bonds and Stocks	B 4	
Th 10/4	Portfolio Theory	B 7	
T 10/9	The Capital Asset Pricing Model	B 8	#1 Due
Th 10/11	CAPM Tests and Alternatives	B 8 (cont.)	
T 10/16	Project Analysis & Capital Budgeting	B 6 (selected), 9	
Th 10/18	Catch up and Review		#2 Due
T 10/23	MIDTERM EXAM		
Th 10/25	Efficient Markets	B 13	
T 10/30	Noise Trading and Herd Behavior	J 1	
Th 11/01	Initial Public Offerings	B 14-15	#3 Due
T 11/06	Dividends	B 16, J 2	
Th 11/08	Capital Structure and Financial Distress	B 17-18	
T 11/13	Catch up and Review		#4 Due
Th 11/15	MIDTERM EXAM		
T 11/20	Understanding Options	B 20	
T 11/27	Simple Option Pricing	B 21.1-3	
Th 11/29	More Complicated Option Pricing	B 21.4-5	#5 Due
T 12/4	Real Options	B 10, 22	
W 12/5	Review Session During X-periods		#6 Due at 3 p.m.
	FINAL EXAM [Cumulative, emphasizing last third of course]		