MN3116 – Financial Markets & Investments

Module Type/Semester: Junior Honours/Option (20 Credits)/Semester 2

Pre-requisite(s): MN3101

Module Co-ordinator: Dr Jimmy Chen

Lecturers: Dr Jimmy Chen (xc38@st-andrews.ac.uk)
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AIM:
The financial sector has gone through some profound changes over the past decades, due in part to an abundance of newly designed securities, the creation of innovative trading strategies, concurrent advances in computer technology and turbulent events in the global financial markets. We have also witnessed the rapid transmission of theory to real-world practice in the financial industry. This module is designed to give students an appreciation of the role and importance of the financial markets in the economy and deals with main components and instruments and techniques of portfolio management and trading. The module will equip students with an understanding and skills that are essential to the practices of an investment professional or a sophisticated individual investor for both investment decision making and ways to manage risks.

Method of Teaching & Learning:
• Lectures
• Seminars
• Independent study

Learning Outcomes:
By the end of the module, students should be able to:
• Have an understanding of the overall investment environment and major asset classes
• Develop a thorough understanding of the various financial instruments
• Be familiar with the role of a security’s intrinsic value within the context of fundamental analysis
• Be able to value a firm using the appropriate dividend discount model, price/earnings ratio and free cash flow model
• Understand the concept of risk aversion and how risk aversion affects allocation
• Conceptualise the importance of diversification
• Understand the principles of portfolio construction
• Understand the role of asset allocation
• Develop thorough understanding of CAPM and other asset pricing models
• Know the assumptions and implications of the efficient market hypothesis, its failures, and basic theory behind behavioural finance
• Develop a thorough understanding of the pricing, characteristics, and risk determinants of bonds
• Be able to calculate yields and prices of bonds
• Describe the major theories of term structure and how term structure concepts apply to valuation of securities
• Have thorough understanding of duration and how to calculate it for various bond portfolios
• Managing risks, Financial Derivatives and Hedging
• Understand forward, futures, options, swaps and other derivatives.
• Understand futures and option pricing.
• Understand the relationship between financial derivatives and financial crises

INDICATIVE TOPIC OUTLINE:
Week 1: Investment Environment, Asset Classes and Financial Instruments
Week 2: Equity Valuation
Week 3: Risk, Return and Portfolio Diversification
Week 4: Asset Pricing Models and Portfolio Performance Evaluation
Week 5: Efficient Market Hypothesis and Behavioural Finance
Week 6: Fixed-income Securities
Week 7: An Introduction to Managing Risks
Week 8: Derivative Contracts and Trading Strategies
Week 9: Futures and Option Pricing
Week 10: Option Pricing Continued
Week 11: Financial Derivatives and Financial Crises – Case of Orange County

ASSESSMENT:
• Assignment (Investment Report) (50%)
• Final Written Exam (50%)

READING LIST:

Additional readings will be provided during the course.