

Basic Text

Salvatore, D. (2013). *International Economics* (11th ed.). Wiley.

Books Recommended

1. Caves, R. E., Frankel, J. A., & Jones, R. W. (2013). *World trade and payments: An introduction*. Boston, Mass: Pearson Education.
2. Ellsworth, P. T. (1940). *International economics*. Kyoto: Hirano.
3. Feenstra, R. C., & Taylor, A. M. (2017). *International economics*. New York, NY: Worth Publishers.
4. Grubel, H. G. (1981). *International Economics*. R. D. Irwin.
5. Heller, H. R. (1988). *International trade: Theory and empirical evidence*. New Delhi: Prentice-Hall of India Private Limited.
6. Johnson, H. G. (1968). *Money, trade and economic growth*. London: Allen and Unwin.
7. Kramer, R. L., Root, F. R., D'Arin, M. Y., & Kramer, R. L. (1966). *International trade and finance: Theory, policy, practice*. Burlingame, Calif: South-Western Pub. Co.
8. Lindert, P. H., & Kindleberger, C. P. (1991). *International economics*. Homewood, Ill: Irwin
9. Ray, P. K., & Kundu, K. B. (1974). *International economics: Pure theory and trade policy*. Calcutta: Nababharat Publ.
10. Södersten, B., & Reed, G. (2004). *International economics*. Basingstoke: Macmillan.

ECON 404: Financial Investment and Security Analysis

Credit Hours: 04

Rationale: Financial market provides instruments of saving for households and sources of investment funds for firms. To make profitable investment in the financial market and avoid losses investors need basic knowledge about the market. The course shows how prices of various types of securities are determined and how they are affected by various factors in the market.

Prerequisites: Microeconomics, Macroeconomics, and Statistics.

Course Objective: The main purpose of the course is to make students familiar with the various types of financial instruments available in the market and how to invest in these instruments. Throughout the course, students will learn when to buy and when to sell financial securities.

Intended Learning Outcomes: After successful completion of the course, students will be able to:

1. differentiate between primary and secondary securities;
2. measure the riskiness of securities;
3. understand the trading system of a stock exchange;
4. determine the prices of fixed-income securities like bonds and treasury bills; and
5. understand the pricing of derivative securities like options and swaps.

Course Content:

1. **Introduction:** Securities; Security markets; Financial intermediaries.
2. **Investment:** Meaning of investment; Financial and economic meaning of investment; Characteristic of investment; Objectives of investment; Investment vs. speculation; Investment vs. gambling; Types of investment.
3. **Security Markets:** Class of securities; Financial market; Segments of financial market; Types of financial market; Participants in the financial market; Regulatory environment; Primary markets; Method of floating new issues; Principal steps in floating a public issue; Book building; Role of primary market; Regulation of primary market; Organized exchanges call markets; Continuous market; Clearing houses.
4. **Valuation of Riskless Securities:** Spot rates; Forward rates; Discount factors; Yield curves term; Structure theories; Unbiased expectation theory; Liquidity performance theory; Market segmentation theory.

5. **Portfolio Analysis:** The selection problem; Feasible set of portfolios; Efficient set of portfolios; Selection of optimal portfolio; Limitations of Markowitz model; Single index model; Multi-index model; The market model; Diversification.
6. **Riskless Lending & Borrowing:** Allowing for risk free lending and borrowing; effects on the efficient set and on portfolio selection.
7. **The Capital Asset Pricing Model (CAPM):** The capital market line; The security market line; The market model.
8. **Arbitrage Pricing Theory:** A new approach to explaining asset prices (APT); Factor models; Synthesis of APT and CAPM.
9. **Stock Exchanges:** What is a stock exchange; Functions of stock exchanges; Stock market in Bangladesh; Organization, membership and management of stock exchanges; Listing of securities; Permitted securities; Regulation of stock exchange.
10. **Trading System in Stock Exchanges:** Trading system; Types of orders; Settlement; Speculation; Types of speculators; Margin trading; Depositories; Stock market quotations and indices.
11. **Share Valuation:** Concept of present value; Share valuation model; One-year holding period; Multiple- year holding period; Constant growth model; Multiple growth model; Multiplier approach to share valuation; Regression analysis.
12. **Bond Valuation:** Bond returns; Coupon rate; Current yield; Spot interest rate; Yield to maturity (YTM); Yield to call (YTC); Bond prices; Bond pricing theorems; Bond risks; Default risk; Interest rate risk; Bond duration; Convexity; Immunization; Active management; Passive management; Bond vs. stocks.
13. **Options**
 - a. Types of option contracts; Call & put options; Index & other options.
 - b. Valuation of options.
 - c. The binomial option pricing model; The Black–Scholes model for call options.
 - d. The valuation of put options.
 - e. Portfolio insurance.
14. **Futures:** Hedging and speculation; Futures contract; Futures markets; Futures prices; Expected spot and current spot prices; Commodity futures & financial price futures; Synthetic futures; Futures vs. options.
15. **Mutual Funds & Performance Evaluation:** Investment companies; Calculation of fund returns. Risk-adjusted performance; Components of investment performance.
16. **The Swap Market:** Plain vanilla swaps; Motivation for swaps; Swap facilitators; Swap pricing.

Books Recommended

1. Haugen, R. A. (2013). *Modern investment theory*. Delhi: PHI Learning Private Limited.
2. Kevin, S. (2006). *Security Analysis and Portfolio Management*. Prentice Hall of India Private Limited.
3. Alexander, G. J., Sharpe, W. F., & Bailey, J. V. (1995). *Fundamentals of investment*. Vancouver, B.C: Crane Resource Centre.
4. Elton, E. J., & Gruber, M. J. (2000). *Modern portfolio theory and investment analysis*. New York, NY, USA: John Wiley & Sons.
5. Francis, J. C. (1996). *Management of Investments*. New York: McGraw-Hill Book Company.
6. Blake, D. (2006). *Financial Market Analysis*. Chichester: Wiley.