

B.A.V Skill Enhancement Courses (SEC)

FINANCIAL ECONOMICS

Teaching hours/week :2

Number of credits:02

Objective: The course is designed to impart the essential aspects of financial asset valuation.

Module I. Deterministic cash-flow streams Basic theory of interest;

Discounting and present value; internal rate of return; evaluation criteria; fixed-income securities; bond prices and yields; interest rate sensitivity and duration; immunisation; the term structure of interest rates; yield curves; spot rates and forward rates.

Module II. Single-period random cash flows Random asset returns;

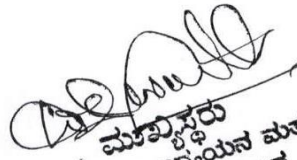
Portfolios of assets; portfolio mean and variance; feasible combinations of mean and variance; mean-variance portfolio analysis: the Markowitz model and the two-fund theorem; risk-free assets and the one-fund theorem.

Module III. 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

Readings

1. David G. Luenberger, Investment Science, Oxford University Press, USA, 1997.
2. Richard A. Brealey and Stewart C. Myers, Principles of Corporate Finance, McGrawHill, 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.


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