

FINANCIAL INVESTMENTS

Joël PETEY, Full Professor

4th year / 1st Semester (24 hours)

This lecture is an introduction to financial assets and financial management. It presents the characteristics, risk measures, valuation principles, and main uses for investors and issuers of the principal classes of financial instruments (bonds, stocks, derivatives) traded on financial markets.

Teaching language: English

Chapter 1 Fixed Income

- Definition and characteristics of bonds
- Bond pricing : zero-coupon rates, yield-to-maturity, the quotation of bonds
- Interest rate risk: sensitivity and duration
- Particular bonds: Floating rate notes, convertibles, mandatories...

Chapter 2 Decision making under risk

- Mathematical expectation
- The expectation-variance framework and the risk/return substitution
- Expected utility
- Portfolio choice under risk: An introductory model

Chapter 3 Portfolio management

- Risk and return in a portfolio : the two assets case
- Systematic risk and diversification
- The Capital Asset Pricing Model
- Actuarial valuation models : The Gordon-Shapiro model and Price-Earnings ratios

Chapter 4 Forward contracts

- Forward transactions and risk transfer
- Characteristics of a forward contract
- Speculation, hedging, and arbitrage

Chapter 5 Options

- Definition and base transactions
- The call/put parity
- Determinants of option prices and the Black and Scholes formula.
- Applications

Reference book

Finance d'entreprise (Corporate Finance), Jonathan Berk and Peter DeMarzo, Pearson

Exam

Written final examination, 2 hours

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