

## University of Michigan Business School

### Course Syllabus

Finance 618

Winter 2005

#### **Instructor:**

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#### **Office Hours:**

Mondays and Wednesdays from 2:00 to 4:00 p.m.

Thursdays from 5:30 to 7:00 p.m.

Whenever you can catch me in my office

Any other time by appointment.

#### **Course Objective:**

Finance 618 is a course about managing risk with derivative securities. The course is intended for MBA students that have taken Finance 580. It develops in detail some of the topics introduced in Finance 580, such as index, currency, and futures options and dynamically hedging American options on securities that pay dividends. Finance 618 also introduces a number of new topics, such as exotic options and interest rate derivatives.

Finance 618 is a rigorous course that requires students to be familiar with basic calculus concepts. Like most finance courses, Finance 618 focuses more on lasting financial principles than on current institutional details.

#### **Course Materials:**

The required textbook for the course is the book by John Hull:

John Hull, 2003, *Options, Futures, and Other Derivatives*, fifth edition, Prentice-Hall, Upper Saddle River, New jersey.

If you plan to work for a bank or in a Treasury function, I strongly recommend that you purchase, study and read this book. If you have the fourth edition of Hull's book, that will work fine. Beside the textbook, I will distribute a set of course notes and some other readings during the term. Copies of the course notes and other useful material will be posted to my web page.

**Grading:**

Course grades will be based on homework assignments and exams. There will be both a midterm and a final exam. Both exams will be given in class. There will also be weekly homework assignments. Grades will be computed by averaging scores with the following weights:

Homework	20%
Midterm exam	35%
Final exam	45%

You may work on homework assignments in a group of up to five students, and each group can turn in just one set of written answers for each homework assignment. Homework assignments will generally be due in the class after they are distributed. Each student's lowest homework score will be dropped. To help you study for exams, I will post answers to all homework questions on my web site. To be fair to all students, any requests for postponements of due dates will be considered only when assignments are made. Requests for test or homework score adjustments will only be considered if they are submitted in writing within three weeks of the homework or test redistribution date.

**Outline:**

This course outline is a list of topics to be covered rather than a calendar for the course. The [course calendar](#) is available on my web site, as is a list of [reading assignments](#) for each topic.

1. Index, Currency, and Futures Options
2. Hedging Parameter Uncertainty
3. Options and Dividends
4. Exotic Options
5. Review of Fixed Income Fundamentals
6. Interest Rate Futures and Swaps
7. IR Options - Standard Market Models