University of Michigan Business School

Course Syllabus
Finance 640 – Financial Trading, Winter B 2006

Instructor:

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Office Hours:

TTh 12Noon to 1:15PM
Any other time by appointment.

Course Objective:

Finance 640 is a course about trading financial assets. The course is intended for MBA students that expect to take trading jobs, but it is also relevant for all students that expect to trade securities. The course uses a combination of lectures and trading simulations/games conducted on the UMBS trading floor to make students comfortable with ideas like order type, bid-ask spread, information, and liquidity. The class will also take an optional and unofficial field trip to Chicago to visit a number of relevant sites, including CME, CBOE, CBT, and Federal Reserve Bank of Chicago. Students that have taken the core should be prepared for this course.

Course Materials:

The required textbook for the course is:

Harris, Larry, *Trading and Exchanges: Market Microstructure for Practitioners*, Oxford University Press, 2003.

Beside the textbook, a number of course readings and some course notes will be posted to our website and distributed in class at the following address:

http://coursetools.ummu.umich.edu/2006/winter/fin/640/001.nsf

Required readings should be read in advance of the class for which they are assigned. Additional background readings and recommended readings are listed on our website and will be made available during the semester.

Grading:

Course grades will be determined both by a final exam and homework assignments and by performance in trading simulations. There will be a written final exam that will account for 60% of the final grades. Weekly homework assignments will account for 10% of the final grades, and performance in trading simulations will account for 20% of the final grade and attendance and class participation will account for 10%. Making student grades depend on trading performance gives students incentives to practice trading outside of class, and makes the simulations more realistic exercises.

Field Trip

We will be making an unofficial field trip to Chicago on April 15, 2006. The field trip is not a required activity, so participation will not affect grades and participants will be responsible for their own travel arrangements. We will schedule as many tours of relevant financial sites as possible. More details about the field trip will be forthcoming.

Outline:

March 8, 10
Introduction – FTS case B01 (trading game) Trading Stories & the Trading Industry

March 15, 17
Order Types FTS case RE1

March 22, 24
Market Structures and Order Driven Market Mechanisms

March 29, 31
Brokers, Informed Traders and Market Efficiency FTS cases RE2, RE5

April 5, 7
Order Anticipators & Bluffing and Price Manipulation, UpTick case – Market Efficiency

April 12, 14

Dealers & Spreads & Arbitrage UpTick case – Price Formation

Wednesday April 27^{th},   Final Exam in Class, 4-6PM