

NEW JERSEY INSTITUTE OF TECHNOLOGY
SCHOOL OF MANAGEMENT
Financial Innovations and Market Failures
Fin 655
Fall 2016

Course Title: Financial Innovations and Market Failures **Semester:** Fall 2016
Instructor: Dr. Michael Ehrlich **Course Number:** FIN 655-MB1
Office: Central Avenue Building 4027 **E-Mail:** Ehrlich@njit.edu
Telephone: 973-596-5305 (office)
Class Timing: Saturday 8:30 - 5PM
Office Hours: Tuesday 9AM-Noon
Location: Leir Conf Room (CAB Bldg 3rd Floor)

Course Description:

Finance 655 is designed to explore some of the frontiers of corporate finance. This reading intensive course introduces concepts and problems from derivatives markets, entrepreneurial finance, and financial market failures (including financial bubbles). It builds upon previous studies of time value of money, capital structure, and corporate strategy. This course focuses on valuation of futures and options (including real options of new ventures), strategy and incentives for new venture finance, and how information asymmetries can create notable market failures including conflicts of interest and financial bubbles. During the course, we will analyze articles published in top academic journals.

Course Objectives:

- Introduction to derivative markets – futures, forwards, and options;
- Derivative valuation strategies and techniques;
- Introduction to entrepreneurial finance – including real options;
- Integration of capital budgeting and financing decisions;
- Financing a new company;
- Introduction to causes of market failures – from recent examples;
- Introduction to analysis of academic literature;

Course Materials:

1. Books: Entrepreneurial Finance by Smith, Smith and Bliss (Stanford Univ Press) & All The Devils Are Here by McLean and Nocera (Penguin).
2. Other Readings will include – moodle posted readings, academic journals (JBV, FAJ, AMJ, SMJ), current news from NYTimes, WSJ, Economist etc.
3. Financial Calculator (HP 10BII or HP 12C recommended) – The same one used in Fin 600 will be fine.

Course Management

This class has three components that are designed to help you gain a solid understanding of these advanced finance topics. The first is, of course, the lectures that will help to guide you through the material and focus your studies. The second are the reading from our texts, moodle and academic journals; please make sure to read before listening to the lecture. The third is the Moodle site (moodle.njit.edu) where course materials are posted and where you will find updated information. I will use Moodle to post all assignments, announcements, and supplemental materials throughout the semester. **So, please be sure to check the site frequently.**

In preparing for the course, it is necessary that you complete the following tasks on or before the first week of the semester:

1. Purchase the textbooks and a calculator from the bookstore (or internet)
2. Make sure you have an NJIT UCID and password so that you are able to access Moodle.
3. Familiarize yourself with the Moodle site.

Please note the syllabus is subject to change. Changes will be announced in class and will be posted on Moodle.

In order to be successful in class, it is necessary to take an active role in learning. This means following the course reading schedule, listening to the lectures, and keeping up to date with your assignments. It is required to be an active participant on moodle.

Grading and Course Requirements:

Grades will be determined as follows: problem set (15%), journal research paper (15%), chapter presentations (15%), final exam (40%), and class participation (15%).

Learning Goals & Learning Outcomes:

Learning Goal 1: Analytical & Problem Solving Skills

- **Learning Outcome 1.1** - Demonstrates knowledge of concepts in corporate finance and the ability to apply these concepts to solve financial problems, such as real options analysis and game theory strategy
- **Learning Outcome 1.2** - Ability to use quantitative methodologies, such as DCF and NPV, as tools to help understand financial problems such as derivative valuation.

Learning Goal 2: Information & Communication Skills.

- **Learning outcome 2.2** (Written Communication & Information Literacy) - Ability to write clear and concise reports. Also the ability to present their material clearly to others.

Learning Goal 3: Reflective Thinking Skills

- **Learning Outcome 3.1** – Ability to think and understand various concepts clearly. Students will learn to generalize problems of asymmetric information and to utilize arbitrage pricing strategies.

Learning Goal 4: Ethical Understanding & Reasoning Ability

- **Learning Outcome 4.1** - Understand the moral implications and ethical schema of individual (financial managers and corporate executives) and corporation decisions and actions, especially their impacts on society.

Disability:

Students with special needs as outlined under the Americans with Disabilities Act should first register with the Counseling Center, 205 Campbell Hall 973 596-3414. Go to the web address http://www.njit.edu/publicinfo/pdf/counseling_ada2004.pdf for more information. If you wish to have a reasonable accommodation made for you in this class, please discuss the matter with me at the earliest possible time.

Academic Honesty: *You are expected to be honest in all of your academic work.*

Students should review and study the honor code at:

<http://www.njit.edu/academics/pdf/academic-integrity-code.pdf>

Instances of alleged dishonesty will be forwarded to the Dean of Students for appropriate action. Potential sanctions include failure in the course and suspension from the University.

Course Schedule for Fin 655
Financial Innovations and Market Failures

| Topics: | Topics | Textbook Chapters |
|----------|---|--|
| Topic 1 | <ul style="list-style-type: none"> • Course Introduction • Bridge from Fin 600 | Read Chapter 4 Posted on Moodle |
| Topic 2 | <ul style="list-style-type: none"> • Introduction to Derivatives | Read Chapters 5 & 7 Posted on Moodle |
| Topic 3 | <ul style="list-style-type: none"> • Introduction to Options | Read Chapters 9, 10 & 11 |
| Topic 4 | <ul style="list-style-type: none"> • Problem Set Due – Upload to Moodle | Problem Set – Posted on Moodle |
| Topic 5 | <ul style="list-style-type: none"> • Introduction to Entrepreneurial Finance | Read Chapters 1 & 4 Posted on Moodle. |
| Topic 6 | <ul style="list-style-type: none"> • New Venture Integration of Capital Budgeting and Finance Decisions | Read Chapter 9 Posted on Moodle. |
| Topic 7 | <ul style="list-style-type: none"> • Upload Entrepreneurship Research Write-up on Moodle | Find Academic Article and Create Research Write-up |
| Topic 8 | <ul style="list-style-type: none"> • Introduction to Recent Financial Market Failures | Read “All the Devils Are Here” |
| Topic 9 | <ul style="list-style-type: none"> • Students will be assigned readings from “All the Devils Are Here” to present in class | |
| Topic 9 | <ul style="list-style-type: none"> • Finish Chapter presentations | |
| Topic 10 | <ul style="list-style-type: none"> • Final Exam in Class | |