

CAPITAL MARKETS

IE University

Professor: **JORGE MERLADET ARTIACH**

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Academic year: 22-23

Degree course: SECOND

Semester: 1º

Category: COMPULSORY

Number of credits: 5.0

Language: English

PREREQUISITES

Although there are no prerequisites, Corporate Finance and Math subjects are very important. The previous concepts of Present Value and Future Value are used throughout the course so it's very important that the students know how to compute them in any scenario.

SUBJECT DESCRIPTION

Capital Markets is the second core finance subject, following the previous topics of Corporate Finance.

In Corporate Finance we learned how to evaluate financial returns, bringing future returns to the present (Net Present Value), evaluating the riskiness of assets and relating them to get the expected financial returns (Portfolio Theory and CAPM).

In Capital Markets we focus on specific securities and security markets (debt, equity and derivatives), and on asset pricing of these securities, with the aim of conveying the practical applications of investment theory.

OBJECTIVES AND SKILLS

The objective of this course is to build on the framework developed in Corporate Finance to analyse financial markets.

Throughout the course students will be given theories and illustrative examples of how to approach specific securities markets, so that they can develop insights as to how to operate in them and, equally important, understand the information provided by those securities markets.

Like in case of Corporate Finance, another objective of the subject is to be confident with the use of Excel spreadsheets for solving practical finance problems. Applied finance exercises requiring the use of Excel are introduced in a coherent and complementary way with the other subjects that are part of the Business Administration Degree.

METHODOLOGY

This course is divided into 25 sessions. The 24th session will be the review session and the 25th session will be the final examination.

The basic financial concepts are taught through the classes. In order to follow the classes, the students are expected to be familiar with the contents discussed in class by reading in advance the corresponding chapters and the slides. The professor encourages the students to ask any questions during the class. Discussions on the problem sets and presentation are also welcome. After the class, individual study and content review is required to master the knowledge in the classes.

The purpose of learning finance is to apply it to the real life. We will relate the theories in this course to real-life applications. Therefore, it's important to keep up by working exercises. Doing exercises is the best way to learn Finance. Problem sets for each topic will be provided to the students. Students will have to prepare in advance the problem sets, which will be graded. The problem sets are the building block towards the midterm and the final exam.

Teaching methodology	Weighting	Estimated time a student should dedicate to prepare for and participate in
Lectures	10.4 %	13 hours
Discussions	8.8 %	11 hours
Exercises	8.8 %	11 hours
Group work	32.0 %	40 hours
Other individual studying	40.0 %	50 hours
TOTAL	100.0 %	125 hours

PROGRAM

See below for the textbook used. BKM stands for Bodie, Kane, Marcus: Essentials of Investments.

The subject is divided into four main parts: INTRODUCTION TO CAPITAL MARKETS, MACRO-FINANCE, SECURITY ANALYSIS, and DERIVATIVES MARKETS.

PART 1. INTRODUCTION TO CAPITAL MARKETS

SESSION 1 (LIVE IN-PERSON)

SESSION 1: Introduction

Lecture

- Introduction to Capital Markets

Reading assignment (to be read before our session):

Book Chapters: BKM ch 1 (See Bibliography)

SESSIONS 2 - 5 (LIVE IN-PERSON)

SESSIONS 2-6: Asset Classes, Instruments and Markets

Lectures and Exercises:

- Intro to Money Market, Bond Market, Equity Securities, Indexes, Derivatives
- How firms issue securities, how securities are traded

- The way markets operate, the regulations

Reading assignment (to be read before our sessions):

Book Chapters: BKM ch 2, 3 (See Bibliography)

SESSION 6 (ASYNCHRONOUS)

SESSIONS 2-6: Asset Classes, Instruments and Markets

Exercises:

- Intro to Money Market, Bond Market, Equity Securities, Indexes, Derivatives
- How firms issue securities, how securities are traded
- The way markets operate, the regulations

PART 2. MACRO-FINANCE

SESSIONS 7 - 8 (LIVE IN-PERSON)

SESSION 7-8: Macroeconomic and Industry Analysis

Lecture & exercises

- Global Economy vs Domestic Economy
- Business Cycles
- Industry Analysis

Reading assignment:

Book Chapters: BKM ch 12 (See Bibliography)

PART 3. SECURITY ANALYSIS

SESSIONS 9 - 12 (LIVE IN-PERSON)

SESSION 9-15: Equity Valuation Models

Lecture

- Valuation by comparable
- Intrinsic Value versus Market Price
- Dividend Discount Models
- Price-Earnings Ratio
- Free Cash Flow: Valuation Approaches
- The Aggregate Stock Market

Reading assignment:

Book Chapters: BKM ch 13 (See Bibliography)

SESSION 13 (ASYNCHRONOUS)

SESSION 9-15: Equity Valuation Models

Exercises

- Valuation by comparable
- Intrinsic Value versus Market Price
- Dividend Discount Models
- Price-Earnings Ratio
- Free Cash Flow: Valuation Approaches
- The Aggregate Stock Market

SESSION 14 (LIVE IN-PERSON)

SESSION 9-15: Equity Valuation Models

Lecture

- Valuation by comparable
- Intrinsic Value versus Market Price
- Dividend Discount Models
- Price-Earnings Ratio
- Free Cash Flow: Valuation Approaches
- The Aggregate Stock Market

SESSION 15 (LIVE IN-PERSON)

MIDTERM EXAM (Chapters 1, 2, 3 & 12)

PART 4. DERIVATIVES MARKETS

SESSIONS 16 - 19 (LIVE IN-PERSON)

SESSIONS 16-20: Options Markets

Lecture and exercises

- The Option Contract
- Values of Options at Expiration
- Option Strategies
- Option-like Securities
- Exotic Options

Book Chapters: BKM ch 15,16 (See Bibliography)

SESSION 20 (ASYNCHRONOUS)

SESSIONS 16-20: Options Markets

Exercises:

- The Option Contract
- Values of Options at Expiration
- Option Strategies
- Option-like Securities

- Exotic Options

SESSIONS 21 - 23 (LIVE IN-PERSON)

SESSIONS 21-23: Futures Markets

Lecture & Exercises:

- The Futures Contract
- Mechanics of Trading in Futures Markets
- Future Markets Strategies
- Determination of Futures Prices
- Financial Futures
- Swaps

Reading assignment:

Book Chapters: BKM ch 17 (See Bibliography)

SESSION 24 (LIVE IN-PERSON)

SESSION 24: Review

Exercises & Q&A

SESSION 25 (LIVE IN-PERSON)

SESSION 25: Final Exam

FINAL EXAM

BIBLIOGRAPHY

Compulsory

- Bodie, Kane, Marcus. (2022). *Essentials of Investments (BKM)*. 12th. McGraw Hill. ISBN 9781260772166 (Digital)

Only Connect Access through:

https://connect.mheducation.com/class/j-merladet-bba2022nba2me_c2_410390-1

EVALUATION CRITERIA

Your final grade in the course will be based on both individual and group work of different characteristics that will be weighted in the following way:

Criteria	Percentage	Comments
Class Participation	10 %	
Problem sets	20 %	
Midterm exam	25 %	
Final Exam	45 %	

A. CLASS PARTICIPATION (it represents 10% of the overall grade)

The students are expected to come prepared and participate actively (and voluntarily) during lectures. In addition, the professor can cold-call on students, particularly on those who have not participated in a while. The students are required to obey the "IE UNIVERSITY'S CODE OF CONDUCT IN CLASS" (see Section 8). Three main criteria will be used in reaching judgment about your class participation:

- Depth and Quality of Contribution: The most important dimension of participation concerns what it is that you are saying. A high quality comment reveals depth of insight, rigorous use of case evidence, consistency of argument, and realism.
- Moving Your Peers' Understanding Forward: Great ideas can be lost through poor presentation. A high-quality presentation of ideas must consider the relevance and timing of comments, and the flow and content of the ensuing class discussion. It demands comments that are concise and clear, and that are conveyed with a spirit of involvement in the discussion at hand.
- Frequency: Frequency refers to the attainment of a threshold quantity of contributions that is sufficient for making a reliable assessment of comment quality. The logic is simple: if contributions are too few, one cannot reliably assess the quality of your remarks. However, once threshold quantity has been achieved, simply increasing the number of times you talk does not automatically improve your evaluation. Beyond the threshold, it is the quality of your comments that must improve. In particular, one must be especially careful that in claiming more than a fair share of "airtime", quality is not sacrificed for quantity. Finally, your attempts at participation should not be such that the instructor has to "go looking for you". You should be attempting to get into the debate on a regular basis.

B. PROBLEM SETS (the sets represent a total of 20% of the overall grade)

The problem sets contribute to a total of 20% of your grade, you are recommended to work in groups no larger than 4 or 5 students. Late assignments will not be graded. These problem sets will serve as guidance toward the midterm and the final exam. Please pay attention to the presentation of your solutions, it will be taken into account for the marks.

C. MIDTERM EXAM

The midterm exam is a mandatory and individual computer-based assessment. It counts 25% of the final mark. The content of the midterm will be based on the previous problem sets. Please ensure you bring a non-graphing, non-financial calculator to the exam.

D. FINAL EXAM

The final exam is a mandatory and cumulative computer-based exam. A minimum grade of 4/10 is required for this exam in order to pass the subject, even if the aggregate mark of the course including all the assessments is greater than 5. The retake policy will follow the university rule (see below).

RE-SIT / RE-TAKE POLICY

Each student has four (4) chances to pass any given course distributed over two (2) consecutive academic years. Each academic year consists of two calls: one (1) ordinary call (during the semester when the course is taking place); and one (1) extraordinary call (or "re-sit") in June/July.

Students who do not comply with the 70% attendance requirement in each subject during the semester will automatically fail both calls (ordinary and extraordinary) for that Academic Year and have to re-take the course (i.e., re-enroll) during the next Academic Year.

The Extraordinary Call Evaluation criteria will be subject to the following rules:

- Students failing the course in the ordinary call (during the semester) will have to re-sit evaluation for the course in June / July (except those students who do not comply with the attendance rule, and therefore will not have that opportunity, since they will fail both calls and

must directly re-enroll in the course during the next Academic Year).

- It is not permitted to change the format nor the date of the extraordinary call exams or deadlines under any circumstance. All extraordinary call evaluation dates will be announced in advance and must be taken into consideration before planning the summer (e.g. internships, trips, holidays, etc.)
- The June/July re-sit will consist of a comprehensive evaluation of the course. Your final grade for the course will depend on the performance in this exam or evaluation only. I.e., continuous evaluation over the semester (e.g. participation, quizzes, projects and/or other grade components over the semester) will not be taken into consideration on the extraordinary call. Students will have to achieve the minimum passing grade of 5 and the maximum grade will be capped at 8.0 (out of 10.0) – i.e., “notable” in the extraordinary call.

Re-takers: Students who failed the subject on a previous Academic Year and are now re-enrolled as re-takers in a course will need to check the syllabus of the assigned professor, as well as contact the professor individually, regarding the specific evaluation criteria for them as re-takers in the course during that semester (ordinary call of that Academic Year). The maximum grade that may be obtained as a retaker during the ordinary call (i.e., the 3rd call) is 10.0 (out of 10.0). The evaluation will be realized as follows: Option 1. Midterm exam (40%) and the final comprehensive exam (60%). The student must obtain a 5 out of 10 minimum in the final exam in order to pass the subject. Option 2. The student may also choose to take the final exam as the only assessment (100%). For both options, the passing grade is 5.

After exams and other assessments are graded by the professor (on either the ordinary or extraordinary call), students will have a possibility to attend a review session (whether it be a final exam, a final project, or the final overall grade in a given course). Please be available to attend the session in order to clarify any concerns you might have regarding your grade. Your professor will inform you about the time and place of the review session.

- Students failing more than 18 ECTS credits after the June/July re-sits will be asked to leave the Program. Please, make sure to prepare yourself well for the exams in order to pass your failed subjects.
- In case you decide to skip the opportunity to re-sit for an exam or evaluation during the June/July extraordinary call, you will need to enroll in that course again for the next Academic Year as a re-taker, and pay the corresponding tuition fees. As you know, students have a total of four (4) allowed calls to pass a given subject or course, in order to remain in the program.

PROFESSOR BIO

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JORGE MERLADET ARTIACH

Jorge Merladet worked at first in the financial markets as an equity and fixed income research analyst and then as the head of equity research department of an investment bank in Spain. As a manager of the firm, Jorge contributed to re-shape a formerly wealth management firm into a wide scope dealer in cash, derivative and M&A markets, gaining licences to operate, gaining new clients, increasing revenues and advising corporates in their IPOs, takeovers and private equity deals.

From 2001, he became CEO of a privately held company. Jorge led two private equity rounds and then the successful IPO of his company in 2005. After that, he has been appointed director at the boards of different companies and advisor to the board for strategic and finance matters and he has played a major role in the expansion and in the restructuring of different businesses as well as in their sale to national and international investors.

OTHER INFORMATION

CODE OF CONDUCT IN CLASS

1. Be on time: Students arriving more than 5 minutes late will be marked as "Absent".
2. If applicable, bring your name card and strictly follow the seating chart. It helps faculty members and fellow students learn your names.
3. Don't leave the room during the lecture: Students are not allowed to leave the room during the lecture. If a student leaves the room during the lecture, he/she will not be allowed to re-enter and, therefore, will be marked as "Absent".
4. Do not engage in side conversation. As a sign of respect toward the person presenting the lecture (the teacher as well as a fellow student), side conversations are not allowed. If you have a question, raise your hand and ask it. If you do not want to ask it during the lecture, feel free to approach your teacher after class. If a student is disrupting the flow of the lecture, he/she will be asked to leave the classroom and, consequently, will be marked as "Absent".
5. Use your laptop for course-related purposes only. The use of laptops during the lectures should be authorized by the professor. The use of Facebook, Twitter, or accessing any type of content not related to the lecture is penalized. The student will be asked to leave the room and, consequently, will be marked as "Absent".
6. No cellular phones: IE University implements a "Phone-free Classroom" policy and, therefore, the use of phones, tablets, etc. is forbidden inside your classroom. Failing to abide by this rule entails expulsion from the room and will be counted as one Absence.
7. Escalation policy: 1/3/5. Items 4, 5, and 6 above entail expulsion from the classroom and the consequent marking of the student as "Absent." IE University implements an "escalation policy": The first time a student is asked to leave the room for disciplinary reasons (as per items 4, 5, and 6 above), the student will incur one absence, the second time it will count as three absences, and from the third time onward, any expulsion from the classroom due to disciplinary issue will entail 5 absences.