e-mail: plakner@stern.nyu.edu
phone: 212 998-0476
Office: Room 8-61 K-MEC
Class meetings: TBA
Classroom: TBA
First class: TBA
Office hours: TBA


Reading material from the textbook and homework exercises will be assigned after every class and posted on Blackboard. The grade will be based on the two exams and the homework assignments. The weights are 40% for each exam and 20% for the homework assignments.

Each homework assignment will be due in the class following the one when it has been assigned. Both handwritten or typed homework assignments will be accepted. Homework assignments should be based on individual work.

Attendance of classes is mandatory. However, absences for medical, work related reasons or family emergencies will be accepted. Use of laptops during the class is not allowed.

Prerequisite: An introductory course in Statistics, knowledge of binomial and normal distributions, use of the normal probability table, expected value and standard deviation of a distribution, conditional probabilities. Solving a system of linear equations.

MBA Stern Honor Code:

http://w4.stern.nyu.edu/scorp/committee.cfm?doc_id=4797

If you have a qualified disability and will require academic accommodation during this course, please contact the Moses Center for Students with Disabilities (CSD, 998-4980) and provide me with a letter from them verifying your registration and outlining the accommodations they recommend. If you will need to take an exam at the CSD, you must submit a completed Exam Accommodations Form to them at least one week prior to the scheduled exam time to be guaranteed accommodation.
List of topics:

Stock prices, trading strategies, value process, gains, discounting, arbitrage, risk-neutral probability measures, the fundamental theorem of asset pricing.

Pricing attainable contingent claims, Call and put options, complete and incomplete markets.

Pricing non-attainable contingent claims, the put-call parity, multiperiod markets, event algebras.

Trading strategy, gains and wealth processes in a multiperiod setting, discounting, conditional expectation with respect to an event algebra, martingales, arbitrage, martingale measure. The fundamental theorem of asset pricing in a multiperiod setting.

Martingale measure for a market with dividend paying stocks, contingent claims, arbitrage pricing in a multiperiod setting, put-call parity and the chooser option.

The binomial model, the European call option under the binomial model.

Lookback, knockout and Asian options. American options.

The Bermudan option, forward contracts on stocks without and with dividends.

Futures. The Black-Scholes model, the BS formula, hedging the European call in the BS model.

Sensitivity analysis of the Black-Scholes formula, Approximation of the Black-Scholes formula with the binomial option-pricing formula. Zero-coupon bonds, the yield curve.

Computations:

A calculator will be necessary for this class. It should be able to calculate the logarithm and the exponential of a number. It should also contain a memory. In class a few times we shall use MINITAB for computing binomial and normal probabilities. Such calculations will be also necessary for a few homework assignments. The use Minitab for completing these assignments is not mandatory, any other computer program that can compute such probabilities is acceptable.

Reading from the textbook:

Section numbers below refer to the textbook. Negative line numbers are counted from the bottom of the page.

Section 1.1
Section 1.2, from page 8, line -11 to page 9, line 10 (negative line numbers are counted from the bottom)
Section 1.3, from the beginning to page 13, line 7

Section 1.4, from the beginning to page 17, line -16 (until the words $V_0 - p$).
Section 1.4, from (1.20) to the end of the section. Section 1.5, first two paragraphs on page 21;
Section 1.5, from page 23 line -8 (from (1.23)) to page 25, line 6 (until the words “similarly for $V_-(X)$”);
Section 1.5, from page 27, line 15 (from 1.28)) to the end of the section.

Sections 3.1.3, 3.1.4, 3.1.5, 3.1.6, 3.3
3.4, from the beginning to (3.19) on page 94
page 95, lines 5-14

Section 4.1, all

Section 3.5, from the beginning to page 104, line 11
Section 4.2, from the beginning to Example 4.6 on page 122.

4.5 - all

4.6, from the beginning to page 141, line -9.

Section 6.1, from the beginning to the end of Example 6.1 on the top of page 206 (until the words ...term structure is constant).