

**Instructor:** Cen-Tsong Lin  
**Office:** Bouillon 108B, tel: 963-2842, e-mail: [ctl@cwu.edu](mailto:ctl@cwu.edu)  
**Office hours:** 1:00 – 2:00 PM, Monday – Thursday or by appointment  
**Prerequisite:** Math 418A

**Required Text:** *Mathematics of Investment and Credit* (5th Edition), 2010, by Broverman, S.A.

**Recommended calculator:** A Texas Instruments **BAII Plus** calculator is recommended for this course

**Course Goal:**

The goal of this course is to provide students an understanding of fundamental concepts of financial mathematics, and how those concepts are applied in calculating present and accumulated values for various streams of cash flows as a basis for future use in: reserving, valuation, pricing, asset/liability management, investment income, capital budgeting and valuing contingent cash flows. The students will also be given an introduction to financial instruments, including derivatives, and the concept of no-arbitrage as it relates to financial mathematics.

**Learning outcomes:**

1. Students will know definitions of key **terms of financial mathematics**: inflation; rate of interest, term structure of interest rates, force of interest; equivalent measures of interest; yield rate, principal; equation of value; present value; future value; current value; net present value, accumulation function; discount function; annuity certain, perpetuity; stocks; bonds; other financial instruments such as mutual funds, and guaranteed investment contracts.
2. Students will understand key **procedures of the financial mathematics**: determining equivalent measures of interest; discounting; accumulating; determining yield rates; estimation the rate of return on a fund;
3. Students will know definitions of key **terms of modern financial analysis** at an introductory and intuitive level, and be able to complete basic calculations involving such terms: yield curves, spot rates, forward rates, duration, convexity, and immunization.
4. Students will know definitions of key terms of financial economics at an introductory level: derivatives, forwards, futures, short and long positions, call and put options, spreads, collars, hedging, arbitrage, and others.

**Course outlines:**

1. Loan repayment: amortization method, sinking-fund method
2. Bond valuation
3. Measuring the rate of return
4. The term structure of interest rate
5. Cash-flow duration and immunization
6. Forwards, futures, swaps, and options (if time allowed)

**Course policies:**

- Attendance: Daily attendance is expected and considered necessary for success
- Homework: Daily homework will be assigned and posted in Canvas (with specified submit method), or online assignment: <http://webwork.math.cwu.edu/webwork2/math418Lin>
- In-Class tests: There will be three 100 points tests, tentative testing dates are 1/22, 2/12 and 3/4
- Final exam: Comprehensive, 12 – 2:00, Wednesday, 03/16/2016
- No make-up test unless you can document a circumstance that is beyond your control and prevent you from taking the test.

**Your final grade will depend on:**

- Homework (scale to) 150 points (25%)
- In-Class tests 300 points (50%)
- Final exam 150 points (25%)

Total 600 points

**Course grade will be assigned based on the following scale:**

	93% → A	90% → A-
87% → B+	83% → B	80% → B-
77% → C+	73% → C	70% → C-
67% → D+	63% → D	60% → D-