225:180
Mathematics of Finance I
Fall 2008

Prerequisite: two semesters of calculus

Course policies are governed by the College of Liberal Arts and Sciences.

University policies regarding Student Rights and Responsibilities can be found at http://www.clas.uiowa.edu/students/academic_handbook/

University policies regarding academic misconduct can be found at http://www.clas.uiowa.edu/students/academic_handbook/

Special Arrangements:
I would like to hear from anyone who has a disability which may require seating modifications or testing accommodations or accommodations of other class requirements, so that appropriate arrangements may be made. Please contact me during my office hours.

Understanding Sexual Harassment:
Sexual harassment subverts the mission of the University and threatens the well-being of students, faculty, and staff. Visit www.sexualharassment.uiowa.edu/ for definitions, assistance, and the full policy.

Instructor: J. Broffitt, 231 SH, 335-0820, james-broffitt@uiowa.edu
Office Hours: 2:30 - 3:20 MW & 10:00 - 11:00 TR, or by appointment.
Department Chair - L. Tierney, luke-tierney@uiowa.edu, 5-0712.
Classes: 8:30 to 9:20 Monday, Wednesday, Friday  room 14 SH
8:30 to 9:45 Tuesday, Thursday  room 71 SH
Email:
Any emails relating to this course will be sent to you via your email address registered with the University (no exceptions). Please check your email at least once per day.

Text:
There are two textbooks.


2. *Derivatives Markets* (Second Edition), 2006 by McDonald, R. The exam 2/course FM syllabus consists of the following sections: Chapter 1 (1.1-1.4); Chapter 2 (2.1-2.6, Appendix 2.A); Chapter 3 (3.1-3.5), Chapter 4 (4.1-4.4), Chapter 5 (5.1-5.4, Appendix 5.B), Chapter 8 (8.1-8.2).

Note: Other textbooks may be used for the professional exam. For these and other information about CAS exam 2/SOA course FM, go to [http://www.soa.org/files/pdf/edu-2008-fall-exam-fm.pdf](http://www.soa.org/files/pdf/edu-2008-fall-exam-fm.pdf). Alternatively, start at [http://www.soa.org](http://www.soa.org) and click (under Education) Course Catalog, and then Exam FM. You should become familiar with the SOA website to obtain such information.

Optional Study Material:
Various types of study materials are available from different sources. Here are some web sites you can check:
- [http://www.actexmadriver.com](http://www.actexmadriver.com) -- this seems to be the most popular with students.
- [http://www.bpp.com](http://www.bpp.com)
- [http://www.afshapiro.com/students.html](http://www.afshapiro.com/students.html)

Several old SOA Compound Interest exams are in the PBB Copy Center (room C 102). You can purchase a copy for about $10.50. Ask for the material for 22S:188 Section 140. More recent Society exams may be downloaded from the SOA web site: [http://www.soa.org](http://www.soa.org)

Off-Cycle Course:
This is an off-cycle course since it ends prior to the end of the regular semester. Our last class is on November 3, and the final is on November 11. Consequently, deadlines published in the University calendar do not apply. Please be aware of these deadlines:

- **Begin Date** -- 08/25/2008
- **End Date** -- 11/11/2007
- Last day to add or drop the course without $10 late charge -- 09/08/2008
- Last day for tuition & fee reduction if you drop the course or reduce hours (See Note below) 09/08/2008
- Last day to add without dean’s approval or drop without a "W" 09/08/2008
- Last day to drop without dean’s approval, undergraduate 10/13/2008
- Last day to drop without dean’s approval, graduate 10/13/2008

Note: If you terminate enrollment in every course (even if enrolled in only one course), it is considered a withdrawal of your entire registration, and you will be held to a percentage of the tuition and fee assessment for that course or those courses. See [http://www.registrar.uiowa.edu/tuition/FinancialConsequencesWhenStudentDropsOrWithdraws.pdf](http://www.registrar.uiowa.edu/tuition/FinancialConsequencesWhenStudentDropsOrWithdraws.pdf)
Objectives:
This course is intended to provide a good understanding of the mathematics of compound interest, and to provide an introduction to financial derivatives. This is of fundamental importance in actuarial work. Students returning from internships and former students coming back for a visit often comment that compound interest is one of the most useful courses they took. In addition, this course prepares students for CAS Exam 2/SOA Course FM, and provides a background for the study of life contingencies. One of the prerequisites for 22S:181, Life Contingencies I, is a grade of C or higher in 22S:180.

In the early part (Chapters 1-4) we consider the basic mathematics, terminology and notation needed to deal with interest problems. Students are sometimes overwhelmed at first. However, with practice it all begins to make sense. Thus, it is important to work through applicable textbook problems in addition to the homework problems assigned. The latter part (Chapters 5, 6, 7, and 8) deals more with applications of the theory. This will help to reinforce many of the ideas.

Fall 2008 Exam Date for CAS Exam 2/SOA Course FM: November 4 - 10
This is a three- multiple choice exam.
Applications to take this exam must be received in the SOA office by September 24.

Calculators:
You will need either the Texas Instruments BA II Plus or the BA II Plus Professional. These calculators are the only ones allowed on SOA/CAS exams that do interest calculations. The II Plus costs about $30, and the II Plus Professional costs about $50. You will need to get one and get used to it prior to our first exam. On exams you will need one of these calculators. In addition you may use any other calculator(s) approved for the SOA exams: TI-30Xa (about $11) and the TI-30X II (S - solar, B - battery) (about $15). I will provide some instructions for using the financial calculator. An alternate calculator guide is available on the SOA website.

Attendance:
Attendance is mandatory. I expect students to be on time and attend all classes. Being sick is a legitimate reason to miss class, but just feeling a little under the weather is not. Excessive absences may result in a lowering of your grade or a failing grade.

Homework:
Unless otherwise stated, homework assignments will be collected on Fridays and returned on Mondays. Submit homework on 8.5x11 paper. If there is more than one page, staple them together. Homework is due at the beginning of the class period. I do not mind if you work with others on homework problems, and I encourage you to come to me for hints if you are stuck. However, you should first attempt to do the problems on your own, and you are to write the solutions on your own rather than copying the work of others. Do not merely write down answers, but clearly show how you got your results. Homework may be submitted one class period late, but there will be a 25% penalty. Late homework creates additional burdens on the grader. The penalty is to encourage you to be on time with your homework, and thus make life a bit easier for the grader.

Friendly Advice:
Main rule -- do not fall behind! The material is cumulative. Most of you will need a minimum of two to three hours of study after each class (not including class time) to successfully learn the course material. Some of you will need more. If you do not put in the time, you will not learn. Your goal should be to understand rather than to just memorize facts and formulas.

Come to office hours to get your problems sorted out promptly. Study the text carefully and keep up with the lectures. Don’t read it like a novel. Do the problems and if you get stuck, look for similar worked examples. Work problems by yourself or in small groups -- both assigned homework problems and others from the text and...
former SOA exam problems. Working exercises is the major way to assess your understanding and to solidify concepts. You cannot learn how to solve problems by merely watching your teacher do them -- you must solve problems on your own. When you do not understand, ask questions. Be a participant and not just a spectator.

Exams:
Exams will be closed book. Do not wear caps or hats during the exams. There will be two exams plus a final. Exam dates and times are as follows:

<table>
<thead>
<tr>
<th>Exam</th>
<th>Date</th>
<th>Time</th>
<th>Room</th>
</tr>
</thead>
<tbody>
<tr>
<td>Exam 1</td>
<td>Tuesday, September 16</td>
<td>8:30 to 9:45 AM</td>
<td>TBD</td>
</tr>
<tr>
<td>Exam 2</td>
<td>Tuesday, October 14</td>
<td>8:30 to 9:45 AM</td>
<td>TBD</td>
</tr>
<tr>
<td>Final Exam</td>
<td>Tuesday, November 11</td>
<td>6:00 to 8:00 PM</td>
<td>TBD</td>
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</tbody>
</table>

Grades:
Grades will be based on the percent of points earned on exams and homework; however, attendance may also affect your grade. Each exam will count 25%, the final will count 38%, and homework will count 12%. If $E_i$ is the percent of points earned on exam $i$, $F$ is the percent of points earned on the final, and $H$ is the percent of points earned on homework, your course composite will be calculated by the following weighted average: $0.25E_1 + 0.38F + 0.12H$. Your grade for this course will be assigned according to the following approximate scale:

<table>
<thead>
<tr>
<th>Undergraduate Students</th>
<th>Graduate Students</th>
<th>Grade</th>
</tr>
</thead>
<tbody>
<tr>
<td>90 to 100</td>
<td>90 to 100</td>
<td>A</td>
</tr>
<tr>
<td>75 to 89</td>
<td>80 to 89</td>
<td>B</td>
</tr>
<tr>
<td>60 to 74</td>
<td>70 to 79</td>
<td>C</td>
</tr>
<tr>
<td>50 to 59</td>
<td>60 to 69</td>
<td>D</td>
</tr>
<tr>
<td>0 to 49</td>
<td>0 to 59</td>
<td>F</td>
</tr>
</tbody>
</table>

This is not an absolute scale. The cutoff points may vary depending on the difficulty of the exams. Also, borderline cases may receive a + or −, and grades may be adjusted due to attendance.

ICON:
This course will make use of ICON (Iowa Courses ON line). Grades will be posted on ICON as well as homework assignments and other information that you should access and print out. In particular, compound interest questions from seven past CAS 2/SOA FM exams are on this website. You should print a copy and bring it to class since we will work several of these questions in class. There are also some past exams that I have given in 22S:180. I would recommend bring these to class as well. The web address for ICON is [http://icon.uiowa.edu/](http://icon.uiowa.edu/). You will need to log in using your Hawk ID and password.