

University of Maryland
Master of Professional Studies in Applied Economics
ECON 670: Financial Economics (Fall 2016)

Shalini N. McAdams
smcadam1@umd.edu

Class	Tuesdays 6:45 – 9:30 PM, 1400 16th Street N.W. (15-minute break at some point between 7:45 and 8:30)
Office Hours	Tuesdays before/after class and by appointment
Midterm	October 11, 2016
Final	November 15, 2016
TA Name	Hidehiko Matsumoto (Hide – pronounced "He-Day")
TA Email	DCmastersTA@econ.umd.edu
TA Office Hours	Announced on a weekly basis and posted on the program's ELMS site

Overview

This course applies microeconomic theory and applied econometric techniques to the study of financial institutions and markets for financial assets. Students will learn how economists model and estimate the value of financial assets. The economic and empirical models are of interest to public policy makers and private wealth managers. Specific topics can include financial intermediation, the regulation of financial institutions, risk management, portfolio theory, the capital asset pricing model and the efficient markets hypothesis.

Prerequisites: ECON 641 and ECON 644 (can be taken concurrently with ECON 644)

Course Objectives

Our program has 7 general learning outcomes for students:

1. Ability to understand, evaluate and analyze economic data
2. Ability to understand and interpret statistical evidence from economic data
3. Ability to apply empirical evidence to assessing economic arguments
4. Ability to apply macroeconomic theories to policy discussions
5. Ability to apply microeconomic theories to policy discussions
6. Ability to communicate economic ideas to a broader audience
7. Ability to evaluate the effectiveness of policy programs using sound economic techniques

The learning outcomes that pertain to this course are: 1, 2, 3, 5, and 6

Textbook

Any recent edition of following text is acceptable.

Required: Principles of Corporate Finance by Brealey, Myers and Allen ("BMA"); latest - 11th edition

Optional: Asset Pricing by John Cochrane; latest – 2005 revised edition

Course Website

ELMS/Canvas will be used to post lecture materials and assignments. Students are responsible for everything covered in lectures, even material which may not be posted on ELMS/Canvas. You can access the site via www.elms.umd.edu. You will need to use your University of Maryland "directory ID" and password.

Agenda (revisions, if any, will be announced in class, by email, and posted in a revised syllabus online)

<u>Week (Date)</u>	<u>Topic</u>	<u>Readings from BMA 11e</u>
1 (8/30)	Intro, time value of money, discounting, and NPV	Instructor Notes, Chapters 2, 5 and 6
2 (9/6)	Valuation of bonds and stocks, term structure	Chapters 3(<i>Two St. Pres: 1-3, 4-6</i>) and 4(<i>St. Pres</i>), 23
3 (9/13)	Risk and return, Portfolio theory and CAPM	Chapter 7(<i>St. Pres</i>) and 8(<i>Two St. Pres: 1-2,3-4</i>)
4 (9/20)	Efficient markets hypothesis, and Intro. to options	Chapters 13(<i>St. Pres</i>) and 20(<i>St. Pres</i>)
5 (9/27)	Valuing options, and managing risk	Chapters 21(<i>Two St. Pres: 1-3, 4-6</i>) and 26(<i>St. Pres: 1-4,7</i>)
6 (10/4)	Investment strategy	Assignment 1 Due ; Chapter 11(<i>St. Pres</i>)
7 (10/11)	MIDTERM and intro. to corporate financing	Chapter 14(<i>St. Pres</i>)
8 (10/18)	Risk and cost of capital, and issuance of securities	Chapters 9(<i>St. Pres</i>) and 15(<i>St. Pres</i>)
9 (10/25)	Payout policy, and capital structure	Chapters 16(<i>St. Pres</i>) and 17(<i>St. Pres</i>)
10 (11/1)	Corporate borrowing	Chapter 18(<i>Two St. Pres: 1-2,3-4</i>)
11 (11/8)	Financing & valuation, and M&A	Assignment 2 Due ; Chapters 19(<i>St. Pres</i>) and 31(<i>Two St. Pres: 1-3, 4-6.</i>)
12 (11/15)	FINAL – November 15	

Grading Policy

Midterm	35%
Final - Cumulative	40%
Assignments	10%
Presentation	10%
Online Discussion	5%
Total	100%

Exam Policy

The midterm and final must be taken on the scheduled dates. The only exceptions allowed are (1) University-sponsored exception (*e.g.*, snow day); and (2) unforeseen and officially documented illness, accident, or family crisis. The midterm will be 90 minutes long followed by lecture. The final exam will be held the last class session and will be comprehensive.

Calculators allowed, EXCEPT no cellphone calculators and no computers. Exams are closed book, closed notes, but students are allowed one 8.5"x11" (front & back) for formulas and notes.

Assignments

There will be two assignments with due dates **October 4, 2016** and **November 8, 2016**. The assignments will be posted at least two weeks prior to these due dates; so students are encouraged to begin working on these assignments as we cover the material. Students are also encouraged to meet with the TA to discuss any questions regarding assignments, noting the exams relate to the assignments. You may work together on the assignments, but please write and submit your answers separately. As graded assignments will not be returned in time before the midterm and final exam, students could make a copy of their submitted assignments. If all students have turned in their assignments on the due date, solutions to assignments will be posted right away. If not, the solutions will be posted at the end of the second day.

In-class “Summary and Application” Presentations

The course agenda calls for student presentations on certain assigned readings (marked “(St. Pres)” or “(Two St. Pres)” in Agenda above). Each student will give a presentation at some point during the semester. As more than 22 students are currently enrolled in the course, some students will need to present to me privately outside of class. I will ask that students choose their presentation topic and date after the 1st class.

Each presentation will be about 7 minutes long – with less than half the time devoted to summarizing the key concepts in the assigned reading, and the remainder devoted to discussing a real-world application of key concepts. All of the presentations will come on the same day that the relevant material is being covered in class. This means that the student presenters must read ahead and prepare their presentations before sitting through my lecture on the relevant material. This is one example of the difference between graduate and undergraduate education. Our classes are seminars. That means that all members of the group share responsibility for teaching each other. I will present an example presentation in the first class.

Complete drafts of PowerPoint presentations are due as email attachments by 7:00 p.m. on the Sunday before your presentation. Please send them to smcadam1@umd.edu. I will send feedback by 5:00 p.m. on Monday. You need to revise your presentation based on my feedback and send the final version to me as an email attachment by 6:00 p.m. on the day of the presentation. Presentations will be graded according to the criteria specified in a grading rubric posted on the course's ELMS/Canvas site.

Further details on the presentation and the grading rubric will be discussed in the first class.

Online Discussion

Weekly online discussions will be held under the “Discussion” tab on the class ELMS site.

Discussions will generally occur on Thursday or Friday and stay open for 24 to 48 hours. Details regarding discussions will be posted on the ELMS site.

Late Penalty

All assignments and discussions are subject to late penalties. The penalties are as follows: 20% for late work submitted after the specified time on the due date, 50% for second day. Assignments are not accepted after the second day. Late penalties apply except when prior approval is obtained.

Final Course Grades

Final letter grades are based on the weighted score. If necessary, I will grade on a curve if the exam averages are very low for the whole class. Otherwise, numerical course grades will be translated into letter grades as follows:

93-100	A
90-92	A-
80-89	B+
70-79	B
60-69	B-
50-59	C+
40-49	C
30-39	C-
20-29	D+
10-19	D
0-9	F

I might give an A+ to a student or two at the very top of the class’ grade distribution.

Other policies

Email: Email is the primary means of communication outside the classroom, and I will use it to inform you of important announcements. Students are responsible for updating their current email address via <http://www.testudo.umd.edu/apps/saddr/> AND for paying attention to messages I send to the class via ELMS. Failure to check email, errors in forwarding email, and returned email due to “mailbox full” or “user unknown” will not excuse a student from missing announcements or deadlines. I will do my best to respond to email within 36 hours.

Contact Hours: Three credit courses at the University of Maryland require a minimum amount of contact between instructors and students. Our courses’ 12 weekly 3-hour meetings only satisfy 80% of the university’s contact requirement. The other 20% is usually satisfied by weekly mandatory and graded online contact. Instructors have some discretion in how they structure the online component of their course. In principle, the contact hours requirement could be satisfied by scheduling 3 additional 150-minute meetings per term, or 6 additional 75-minute meetings, or 10 additional 45-minute meetings. The weekly online discussions are a more flexible way to ensure that our program’s courses in DC provide the same level of student-instructor contact as the traditional 15-week, face-to-face, version of the same course when it is taught on campus in College Park.

Work Load: Mastering the material covered in this course requires a significant amount of work outside of class. Students should expect to spend more time outside of class than in class – typically at least twice as much time. The courses in our DC program are 12-week courses that cover all the same material as a traditional semester-long 3-credit course (15 weeks). The compressed schedule makes it possible to complete our degree in just 15 months if you take 2 courses each term. But the compressed schedule also implies an accelerated pace with an average of 25% more work per week in a given course ($15/12 = 1.25$). The normal full-time load in a master’s program is 3 courses per semester, or 6 courses per year. Students who take 2 courses per quarter in our program complete 8 courses per year. So taking 2 courses per quarter in our program is equivalent to 133% of a full-time load ($8/6 = 1.33$). Students who take 2 courses per term in our DC program should expect to do an average of 25-33% more work per week than a student in a full-time master’s degree program.

Academic Integrity: The University of Maryland has a nationally recognized Code of Academic Integrity, administered by the Student Honor Council. This Code sets standards applicable to all undergraduate and graduate students, and you are responsible for upholding these standards as you complete assignments and take exams in this course. Please make yourself aware of the consequences of cheating, fabrication, facilitation, and plagiarism. For more information see www.studenthonorcouncil.umd.edu.

Student Conduct: Students are expected to treat each other with respect. Disruptive behavior of any kind will not be tolerated. Students who are unable to show civility to one another or myself will be referred to the Office of Student Conduct. You are expected to adhere to the Code of Student Conduct.

Medical Excuses: If you miss any class meetings for any reason, you are still responsible for all material covered during the meeting you missed. It is your responsibility – not the instructor’s – to get yourself caught up in the course.

If you need to miss an exam or other course deadline because of illness, injury, or some other emergency: Follow doctor's orders and get documentation. Get in touch with the instructor as soon as you’re able – preferably prior to missing the exam or deadline. Communicate with the instructor to make up the course requirement as soon as possible. You are entitled to recover before you make up the course requirement, but you are not entitled to extra days to study beyond the time the doctor's note says you’re incapacitated. If you are incapacitated for more than a week or so beyond the end of the term, your grade in the course will be an “Incomplete”. Once you make up the course requirement the instructor will change your "I" to the appropriate letter grade.

School Closings and Delays: Information regarding official University closing and delays can be found on the campus website and the snow phone line: (301) 405-SNOW (405-7669). Since our program is an evening program in downtown Washington, DC, rather than a day program in College Park, we do not always cancel classes on the same days as the College Park campus. The program director will always announce cancellation information to the program as an announcement on the program's ELMS/Canvas site. This will generally be done by 1:00 p.m. on days when weather or other factors are an issue.

Students with Disabilities: The University of Maryland does not discriminate based on differences in age, race, ethnicity, sex, religion, disability, sexual orientation, class, political affiliation, and national origin. Reasonable accommodations will be made to students with documented disabilities. I will make every effort to accommodate students who are registered with the Disability Support Services (DSS) Office and who provide me with a University of Maryland DSS Accommodation form.

Academic Progress: The graduate school requires that students maintain a GPA of at least 3.0. Students whose cumulative GPA falls below 3.0 will be placed on academic probation by the graduate school. Students on academic probation must ask the program's director to petition the graduate school if they want to remain in the program. The petition must include a plan for getting the student's GPA up to at least 3.0. Students who do not live up to their plan can be forced to leave the program without having earned the degree.

Building Access: The door to the building at 1400 16th Street is unlocked on weekdays until 7:00 p.m. Students who arrive after 7:00 p.m. or on weekends will find the door locked. The building's security guard is stationed at a desk just inside the door until 11:00 p.m. and will let you in. You can also call the phone on the security guard's desk by dialing (202) 328-5158. If the security guard happens to be away from his or her desk when you arrive, you can pick up the black phone to the right of the door at 1400 16th Street. You will be connected to the company that handles security for our building. If you tell them you are with the University of Maryland, they should ask you for a password. The password is "Drawbridge". When you tell them the password, they will be able to unlock the door for you.