Richard Stahnke   Tydings Hall 3127F
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(Note: My preferred method of contact is via the email address above. If you contact me via the ELMS email system, I may not see your message for a few days as I do not check that email on a daily basis.)
Course website: ELMS
Time: Tu 6:30 - 9:15 (with a 15 minute break between 7:30 – 8:15)
Location: Tydings Hall 0101

Office Hours: Tuesdays 3 – 5 p.m., immediately after class and by appointment.

TA Information:
Heehyun (Rose) Lim
Email: Lim@econ.umd.edu
Office Hours: Mondays & Tuesdays 5:15 – 6:30 p.m. in Morrill 1102B

Course Description: This course is an introduction to the economics of finance. We begin with a look at financial statements, instruments and institutions, and move on to discuss the theory of portfolio choice and theories of asset pricing in considerable detail. Topics include diversification, arbitrage, the valuation of bonds, stocks and contingent claims, forward and futures contracts, options and swaps, hedging, insurance and market efficiency.

Prerequisites: Econ 641 and Econ 644. You may take the course concurrently with Econ 644.

Textbook and Readings: The required text (labeled BKM in the course outline) for this course is:

> Zvi Bodie, Alex Kane and Alan J. Marcus (2013), *Investments*, 10th or 11th Edition, McGraw Hill.

We will begin most classes discussing what has been happening and of interest in financial markets, so I strongly encourage students to read financial newspapers or online financial news reports. There are many sources to choose from including the Wall Street Journal, Financial Times, Economist, Yahoo.com/Finance, MarketWatch.com and Google.com/Finance. Check out lib.umd.edu for the University of Maryland's online holdings.

We will also periodically read and discuss journal articles on recent developments in the areas that we will be studying. These additional readings (or links to these readings) will be posted on ELMS.

Course and Program 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

Course Requirements:

1. You are expected to read the assigned readings prior to class.

2. You are expected to participate actively in group assignments and discussions.

3. Problem sets will be assigned weekly. You may work on problems sets in groups of 2-4 people, but you must submit your solutions individually. The lowest problem set grade will be dropped from the problem set grade calculation. Late problem sets will not be accepted. Some problem sets will require Excel, and some empirical work in problem sets may be done in either Excel or Stata.

4. Everyone will give one 10-12 minute presentation (typically one or two presentations per class starting in week 4). The topic will be of your own choosing, but it must be approved by me. The topic can range from a detailed analysis of a financial event (such as a financial crisis, financial innovation liberalization/tax policy or M&A activity to name a few) to a presentation of the results from an applied finance journal article. You will be expected to meet with me to discuss a rough draft of the presentation the week before you present. A detailed presentation grading rubric will be available on ELMS.

5. Every student is required to participate in a virtual investment game in order to gain some practical experience with managing a stock portfolio. The URL to register for the investment game is www.marketwatch.com/game/ umd-econ670-2018s. The game runs from 1/24/18 to 5/1/18, and you will have $100,000 to manage. Please use your last name followed by your first initial as a user name (so I would be stahnker). Although you will not be graded on how well your portfolio performs, you may be asked to discuss your results and will be required to submit a one page report that summarizes your portfolio's performance and explains the investment strategy you were pursuing.

6. Finally, there will be one midterm examination and one cumulative final. All exams will be closed book exams (except for the use of calculators).

Grading: Your grade for this course will be determined by the following formula:

Investment Game	5%
Problem Sets	20%
Presentation	10%
Midterm	25%
Final	40%
Total	100%

The point scores for each of the above will be curved according to my professional judgement into letter grades, which will then be used to calculate your overall weighted course grade point average. For instance, suppose you had the following grades for the course:

	Grade	GPA
Investment Game	B+	3.3
Problem Sets	A	4
Presentation	A-	3.7
Midterm	B	3
Final	B+	3.3
Weighted Average		3.405

The weighted average is calculated as $3.405 = .05(3.3)+.2(4)+.1(3.7)+.25(3)+.4(3.3)$. Since 3.405 rounds to 3.3, this would be a B+ for the course. I will use my professional judgement to determine exactly what the cutoffs will be between letter grades, but they will be very close to the mathematical rounding shown below:

Weighted Average	Course Grade
3.85 – 4	A
3.5 – 3.84	A-
3.15 – 3.49	B+
2.85 – 3.14	B
2.5 – 2.84	B-
2.15 – 2.49	C+
1.81 – 2.14	C

Tentative Course Outline

Date	#	Topics
1/30	1	Introduction and overview (BKM 1), Markets and Instruments and Trading (BKM 2 and 3)
2/6	2	Discounting, Interest Rates and Inflation (Notes and BKM 5), Risk (BKM 5) **Problem Set #1 Due**
2/13	3	Capital Allocation (BKM 6), Optimal Risky Portfolio (BKM 7) **Problem Set #2 Due**
2/20	4	Index Models (BKM 8) **Problem Set #3 Due**
2/27	5	The Capital Asset Pricing Model (BKM 9) **Problem Set #4 Due** **Quiz: Present Discounted Value** (counts as a problem set grade)
3/6	6	Arbitrage Pricing Theory (BKM 10), Midterm Review **Problem Set #5 Not Due** (but covered on Midterm)
3/13	7	**Midterm**
3/20		***** SPRING BREAK *****
3/27	8	The Efficient Market Hypothesis (BKM 11 and 12), Empirical Evidence (BKM 13)
4/3	9	Bonds (BKM 14, 16) Term Structure of Interest Rates (BKM 15) **Problem Set #6 Due**
4/10	10	Valuation of Stocks (BKM 18), Financial Statement Analysis (BKM 19) **Problem Set #7 Due**
4/17	11	Options (BKM 20), Option Valuation (BKM 21) **Problem Set #8 Due**
4/24	12	Forward and Futures Contracts (BKM 22), Futures and Swaps (BKM 23) **Problem Set #9 Due**
5/1	13	International Diversification (BKM 25), Hedge Funds (BKM 26) **Problem Set #10 Due**
5/8	14	Real Estate (Notes) Final Review **Problem Set #11 Not Due**
5/15	15	**Final Exam**

Standard Program Policies

Course Website: Copies of the course syllabus, your grades, and other relevant links and documents will be posted on the course's ELMS/Canvas website. You can access the site via www.elms.umd.edu. You will need to use your University of Maryland "directory ID" and password.

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 <u>not</u> excuse a student from missing announcements or deadlines. I will do my best to respond to email within 36 hours.

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.

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.

Excused Absences: The University of Maryland's policy on excused absences is posted here:
http://www.president.umd.edu/administration/policies/section-v-student-affairs/v-100g
    Please note:
    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 make sure you catch up on the missed material. Instructors routinely facilitate things by posting lecture notes, etc.
    If you need to miss an exam or other graded course requirement 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". In such cases you must negotiate a plan with your instructor for completing the course requirements. 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) The program director will also 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. If classes need to be cancelled during the semester, it may be necessary to move the final exam back a week so missed classes can be made up.

UMD Counseling Center: Sometimes students experience academic, personal and/or emotional distress. The UMD Counseling Center in Shoemaker Hall provides comprehensive support services that promote personal, social, and academic success. The cost of these services is covered by the fees you already paid when you registered for classes, and there is no additional charge if you use the services. Proactively explore the range of services available, including the Counseling Service, Accessibility and Disability Service, Learning Assistance Service, and the Testing Office, all described at http://www.counseling.umd.edu/

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, or national origin. Reasonable accommodations will be arranged for students with documented disabilities. Students who have an accommodations letter from the Accessibility and Disability Service (ADS) should meet with me during the first few weeks of the semester to discuss and plan for the implementation of your accommodations. If you require reasonable accommodations but have not yet registered with ADS, please contact the Accessibility and Disability Service at 301-314-7682 or adsfrontdesk@umd.edu.

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. Note: a grade of "B" corresponds to a GPA of 3.0. A grade of "B-" corresponds to a GPA of 2.7.

Access to Morrill Hall and Morrill 1102: Morrill Hall is locked every day from 7:00 p.m. - 7:00 a.m. Your university ID gives you swipe access to the back door of the building.