

**University of Maryland**  
**Master of Professional Studies in Applied Economics**  
**ECON 670: Financial Economics (Spring 2018)**  
Lubomir Petrasek  
[petrasek@umd.edu](mailto:petrasek@umd.edu)

Class	Wednesdays 6:45 to 9:30pm, 1400 16 <sup>th</sup> St N.W., suite 140. There will be a 15-minute break around 8pm.
Office Hours	By appointment before class
Midterm	<b>April 11, 2018</b>
Final	<b>May 16, 2018</b>
TA Name	Hidehiko ("Hide") Matsumoto
TA Email	<a href="mailto:Matsumoto@econ.umd.edu">Matsumoto@econ.umd.edu</a>
TA Office Hours	Wednesday 6:00-6:45, and Thursday 5:15-6:45

### 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

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

### Required Readings:

*Textbook:* Corporate Finance by Jonathan Berk and Peter DeMarzo (full edition, *not* the core edition). The 4<sup>th</sup> edition is recommended but an earlier edition may also be acceptable.<sup>1</sup>

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<sup>1</sup> The reading list is based on the numbering of chapters in the 4<sup>th</sup> edition. Students who decide to buy an earlier edition are responsible for finding the right chapters to read. Assignments will be posted on Canvas and will not require the use of the textbook.

*Journal Articles and Other Materials:*

1. Monetary Policy Report, Board of Governors of the Federal Reserve System, February 2018.
2. Jefferson, Duarte, Francis A. Longstaff, and Fan Yu, 2007, Risk and Return in Fixed-Income Arbitrage: Nickels in Front of a Steamroller? *Review of Financial Studies* 20, 769-811.
3. Graham, John R., and Campbell R. Harvey, 2001, The Theory and Practice of Corporate Finance: Evidence from the Field, *Journal of Financial Economics*, 187-243.
4. Gompers, Paul, Kaplan, N. Steven, and Mukharlyamov, Vladimir, 2016, What Do Private Equity Firms Say They Do? *Journal of Financial Economics*, 449-476.
5. Cochrane, John, 2011, Presidential Address: Discount Rates, *Journal of Finance*, 1047-1108 – Part 1, 2 (Time Series, Cross-Section).
6. Cochrane, John, 2011, Presidential Address: Discount Rates, *Journal of Finance*, 1047-1108 – Part 3, 4 (Theories, Recent Performance).
7. Fama, Eugene F., and Kenneth R. French, 1996, Multifactor Explanations of Asset Pricing Anomalies, *Journal of Finance* 51, 55-84.
8. Jegadeesh, Narasimhan, and Sheridan Titman, 1993, Returns to Buying Winners and Selling Losers, *Journal of Finance* 48, 65-91.
9. Miller, Merton, 1988, The Modigliani-Miller Propositions after Thirty Years, *Journal of Economic Perspectives* 2, 99-120.
10. Brau, James C. and Stanley. E. Fawcett, 2006, Initial Public Offerings: An Analysis of Theory and Practice, *Journal of Finance* 61, 399-436.
11. Lerner, Josh., Morten, Sorensen, and Petr Stromberg, 2011, Private Equity and Long-Run Investment: The Case of Innovation, *Journal of Finance* 66, 445-477.
12. Jorion, Philippe. 2000, Risk Management Lessons from Long-Term Capital Management, *European Financial Management* 6, 277-300.
13. Pedersen, Lasse H., 2009, When Everyone Runs for the Exit, *NBER Working Paper* 15297.
14. Duffie, Darrel, 2010, The Failure Mechanics of Dealer Banks, *Journal of Economic Perspectives* 24, 51-72.
15. La Porta, Rafael, Florencio Lopez-de-Silanes, and Andrei Shleifer, What Works in Securities Laws, *Journal of Finance* 61, 1-32.

Week	Date	Topic	Textbook Chapters	Article Numbers
1	02/28	Financial Markets, Time Value of Money	1, 4	
2	03/07	Interest Rates and the Federal Reserve	5	1
3	03/14	Valuing Bonds	6	2
4	03/21	Valuing Projects and Firms	7, 8	3, 4
5	03/28	Valuing Stocks	9 <b>Assignment 1</b>	5, 6
6	04/04	Risk and Return, midterm review	10, 11, <b>Data Case 1</b>	7, 8
7	04/11	<b>Midterm Exam</b>		
8	04/18	Capital Structure	14, 15, 16	9
9	04/25	Raising Equity and Debt	23, 24	10, 11
10	05/02	Derivatives and Risk Management	20, 21, 30 <b>Assignment 2</b>	12, 13
11	05/09	Corporate Governance and Regulation	29 <b>Data Case 2</b>	14,
12	05/16	<b>Final Exam</b>		

### 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](http://www.elms.umd.edu). You will need to use your University of Maryland “directory ID” and password.

### Grading Policy

Midterm	20%
Final - Cumulative	30%
Data Case	10%
Assignments	10%
Presentation	10%
Quizzes	10%
Online Discussion	10%
<b>Total</b>	<b>100%</b>

### ***Exam Policy***

There will be two exams: a mid-term and a cumulative final. Calculators are allowed, except no cellphone calculators and no computers. Exams are closed book, closed notes. The midterm and final must be taken on the scheduled dates. See “Excused Absences” under “Other Policies” for permissible exceptions.

### ***Assignments***

There will be two assignments with due dates **March 28, 2018** and **May 9, 2018**. The assignments will be posted at least two weeks prior to these due dates; 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. Being able to understand and solve the assignment problems is the best way to succeed on the exams, together with reading the assigned materials and actively participating in the class. You may work together on the assignments, but please write and submit your answers separately. Solutions will be posted before the midterm and final exam, respectively. All graded assignments will be returned to students within 7 days after submitting the assignments. As graded assignments may not be returned in time before the midterm and final exam, students are encouraged to make a copy of their submitted assignments.

### ***Data Cases***

There will be two data cases, due on **April 4, 2018** and **May 29, 2018**. The data cases will involve solving practical finance and valuation problems in a real world setting. The problems will require the use of STATA or other econometric software or your choice. The same policy applies to the data case as to the assignments.

### ***Presentations and Discussion Leaders***

Each student will be a *discussion leader* for one paper on the reading list (assigned during the 1<sup>st</sup> class) and prepare a *10-minute presentation* summarizing the article and the online discussion. The summary include a brief summary of the article, the discussion leader’s critical analysis, and answers to questions raised during the online discussion. The presentation will be followed by a discussion moderated by the discussion leader. Presenters will be evaluated on the quality of the presentation and their ability to lead the discussion online and in the class room. The instructor will be the discussion leader for article #1 to provide an example and set expectations for the presentation.

### ***Quizzes***

There will be several quizzes which will allow the instructor to assess the progress of the class and class participation. Students can prepare for the quizzes by reviewing material covered in the previous class, reading the assigned materials, and participating in the online discussion. No makeup quizzes will be given under any circumstances.

### ***Online Discussion***

An important part of the class will be weekly online discussions. These discussions will cover the reading assignments for the *upcoming* class, especially journal articles. Each journal article will have its discussion leader (see “Presentations and Discussion Leaders” above) who will be responsible for asking questions. All students are expected to participate in *all discussions*, either by responding to the discussion leader’s questions or other participants’ comments. Both the quality and the quantity of entries per student will determine the final online participation grade. Discussion leaders are expected to post their questions by *midnight on Friday*. Discussions will close on *Tuesday midnight* before the class.

**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. 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

A+ may be given for exceptional achievement to a student or two at the very top of the class' grade distribution.

## Other 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](http://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 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 satisfied by weekly mandatory and graded online contact. 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. But in practice the contact hours requirement is satisfied by the weekly online discussions. 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. The weekly work load when taking 2 of our courses per term is equivalent to the load from 2.5 "normal" 15-week courses - so  $2.5/3.0 = 83\%$  of a full-time load. Students who take 2 courses per quarter in our program complete 8 courses per year. So over the course of a year, taking 2 courses per quarter in our program is equivalent to 133% of a full-time load ( $8/6 = 1.33$ ).

**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](http://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 get yourself caught up in the course. 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). 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.

**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](mailto: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 have their enrollment in the program terminated 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.

**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 is off duty or happens to be away from his or her desk when you arrive, you can go around to the other door at 1616 P Street and pick up the black phone to the right of that door. 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. When you tell them the password, they will be able to unlock the door for you. You can get the password from the program coordinator, the TA, or the program director. Please note: the building security staff are not able to buzz you in at the 1400 16th Street door. You have to go around to the 1616 P Street door to be buzzed in.