Econ 670: Financial Economics
Course Information and Syllabus
Fall 2020

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Email: `izer@umd.edu`
Office Hours: Tuesdays 5pm–6pm, and by appointment
Class: 7:00pm–8:30pm on Wednesdays

Class Location: Online
Teaching Assistant: Eugene (Kai Cheng) Oue (KCOue@umd.edu)
TA Office hours: TBA

Midterm: 10/14/2020
Final: 11/18/2020

1   General Information

1.1   Online instruction

The course will be held online via Zoom. There will be no face-to-face meetings. You are expected to stay muted during the classes, unless asking a question, and keeping your video on at all times. You are required to attend all of the classes.

1.2   Course Objective

This course is designed to introduce students to key topics in financial economics: the fundamentals of modern financial analysis, instruments and institutions, corporate investment and financing decisions, the theory of portfolio choice and theories of asset pricing. Topics include diversification, arbitrage, market efficiency, the valuation of bonds, stocks and derivatives. We will examine how a set of underlying economic principles are applied to determine the value of basic financial instruments such as stocks and bonds, as well as to more complicated derivative securities such as futures and options.

Prerequisites: Econ 641 and Econ 644

1.3   Textbook

Our textbook will be: Corporate Finance, 5th Edition (*not* the core edition) by Jonathan Berk and Peter DeMarzo (You can use previous editions, but then you will be responsible for finding the right chapters to read).

We may also periodically read and discuss journal articles in the areas that we will be studying. These additional readings are listed below.

1.4   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.

1.5 Communication

You are welcome to contact me via email, and I will try my best to respond within 24 hours (or as early as I am able). The course will be held online, but if you would like to speak with me "in person", we can have an online chat during my office hours.

Email/ELMS is the primary means of communication outside the classroom, and I will use it to inform you of important announcements. You are responsible for paying attention to messages I send to the class via ELMS. You should check your UMD account regularly or you should ensure that your UMD email account forwards messages to another account of your choice.

2 Grading and Related Issues

You are expected to read the assigned readings, and ideally lecture notes prior to class (listed below) and to participate actively in group assignments and discussions.

You will be assessed on the basis of: assignments (15%), data cases (15%), presentations (10%), quizzes (10%), online discussions (10%), a midterm exam (15%), a final exam (25%).

Assignments: There will be two assignments with due dates 09/30/2020 and 11/4/2020, with submission deadlines of 6:45pm (i.e. before class). The assignments must be submitted through ELMS. The assignments will be posted at least two weeks prior to these due dates; you are encouraged to begin working on these assignments as we cover the material. You 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. Marks will reflect assessments of both final answers and supporting work. If needed, you can use Stata or Excel for empirical work.

Data cases: There will be two data cases with due dates 10/07/2020 and 11/11/2020 with submission deadlines of 6:45pm (i.e. before class). The solutions must be submitted through ELMS. The aim of data cases are to familiarize you with data and real life applications of the concepts we are learning through the classes. You can work in groups (highly encouraged) but please submit your answers separately.We will have applications using STATA or Excel. Your TA will provide the data or we will guide you how to access and download the necessary data.

Presentations: Everyone will give one 10-12 minute presentation (starting in week 4) summarizing an article that is listed on the reading list. The summary includes (i) what the article is about, (ii) what the main findings/messages are, and (iii) one or two discussion items related to the article.

Instead of presenting a paper from the reading list, students can form a group of two to work on an empirical project, which is highly encouraged. The project will be a topic of self choice (please send me an email before, so

that we can discuss the relevance and applicability of the topic). The group is expected to deliver a 5-6 pages long "report" along with a recorded presentation (all students in the group should present some part of the project). The report and presentation should include a brief summary of the work and outline the data and findings. Your TA will provide the data or we will guide you how to access and download the necessary data.

In either case (assigned reading or empirical project), the presenters are expected to:

- Send me their first drafts of the slides a few days prior to the presentations, so that I can provide feedback.

- Record their presentation and submit through ELMS so that we will have an online discussion of the presentation.

- Answer possible questions coming from the audience (the rest of the students and myself).

Everybody is highly encouraged to submit at least one question for each presenter. Presenters will be evaluated on the quality of the presentation and their ability to lead the discussion. I will be the presenter and the discussion leader for the first article to provide an example and set expectations for the presentation.

Quizzes: There will be several quizzes, which will allow me to assess the progress of the class and class participation. You can prepare for the quizzes by reviewing material covered in the previous class and reading the assigned materials. No makeup quizzes will be given under any circumstances. You will receive a credit if you participate in a quiz, even if your answers are wrong.

Online Discussion: An important part of the class will be weekly online discussions. These discussions will cover the reading assignments for the up-

coming class, especially journal articles, and the replication projects. We will use asynchronous online discussion board in ELMS. During the online discussions we will discuss the previously recorded presentations either on journal articles or the replication projects. All students are expected to participate in all discussions by asking constructive questions and suggestions. Both the quality and the quantity of entries per student will determine the final online participation grade. The discussions will be open from Friday Midnight to Tuesday midnight.

Exams: No collaboration is permitted in midterm and final exams. You can use lecture notes and the textbook. The midterm and final must be taken on the scheduled dates. Exams will be posted at 7pm and you need to submit them no later than 9pm on the day of the exam. See "Excused Absences" under "Other Policies" for permissible exceptions.

3   Journal articles:

1. Monetary Policy Report, Part 1 –Recent Economic and Financial Developments, Board of Governors of the Federal Reserve System, June 2020.

2. Monetary Policy Report, Part 2 –Monetary Policy, Board of Governors of the Federal Reserve System, June 2020.

3. Reinhart Carmen, and Kenneth S. Rogoff, 2013, "Financial and Sovereign Debt Crises: Some Lessons Learned and Those Forgotten", IMF Working Paper, WP/13/266.

4. 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.

5. Cochrane, John, 2011, "Presidential Address: Discount Rates", Journal of Finance, 1047-1108 – Part I, II, and III

6. Cochrane, John, 2011, "Presidential Address: Discount Rates", Journal of Finance, 1047-1108 Part IV.

7. Fama, Eugene, Kenneth French, 2004, "The Capital Asset Pricing Model: Theory and Evidence", Journal of Economic Perspectives, 18(3): 25-46.

8. Fama, E.F. and French, K.R., 1993. Common risk factors in the returns on stocks and bonds. Journal of financial economics, 33(1), pp.3-56.

9. Baker, Malcom, Jeffrey Wurgler, 2007, "Investor Sentiment in the Stock Market", Journal of Economic Perspectives, 21(2): 129-151.

10. Barberis, N. and Thaler, R., 2002. "A survey of behavioral finance", NBER Working paper.

11. Miller, Merton, 1988, "The Modigliani-Miller Propositions after Thirty Years", Journal of Economic Perspectives 2, 99-120.

12. Jorion, Philippe. 2000, "Risk Management Lessons from Long-Term Capital Management", European Financial Management 6, 277-300.

4 Tentative Course Calendar

Week	Date	Topic	Chapter	Article
1	2-Sep	Time Value of Money	4	
2	9-Sep	Interest Rates and the Federal Reserve	5	1
3	16-Sep	Valuing Bonds	6	2, 3
4	23-Sep	Investment decision rule	7	4
5	30-Sep	Valuing Stocks/**Assignment 1**	9	5, 6
6	7-Oct	Risk and Return/**Data case 1**	10, 11	7, 8
7	14-Oct	**Midterm Exam**		
8	21-Oct	Asset pricing 1	11, 12	
9	28-Oct	Asset pricing 2	12, 13	9, 10
10	4-Nov	Capital Structure /**Assignment 2**	14, 15	11
11	11-Nov	Options /**Data case 2**	20, 21	12
12	18-Nov	**Final Exam**		

5 Other Policies

Course Website: Copies of the course syllabus, your grades, and other relevant links and documents will be posted on the courses 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/ELMS is the primary means of communication outside the classroom, and I will use it to inform you of important announcements. Students are responsible 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 24 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. 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`.

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 are 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 youre 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 programs 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 these 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 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.