

University of Maryland
Master of Science in Applied Economics ECON 670:
Financial Economics (Spring 2021)
 Lubomir Petrasek

Class meetings	Thursdays, March 4 – May 20, 2021
Spring break	March 18 spring break, meeting rescheduled to Fri 3/12
Live sessions (Zoom)	Thursdays, 7:45-8:45pm on Zoom
Video sessions	Thursdays, 6:45-7:45pm or before
Instructor	Lubomir Petrasek
Instructor Email	petrasek@umd.edu
Office hours (Zoom)	45 minutes each week as announced
TA	Ibraheem Catovic
TA Email	ICatovic@umd.edu
TA Office Hours	45 minutes each week as announced

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 4th edition is recommended but an earlier edition may also be acceptable.¹

¹ The reading list is based on the numbering of chapters in the 4th edition. Students who decide to buy a different edition are responsible for finding the right chapters to read.

Journal Articles and Other Materials:

1. Monetary Policy Report, Part 2 – Monetary Policy, Board of Governors of the Federal Reserve System, February 2021.
2. Monetary Policy Report, Part 1 – Recent Economic and Financial Developments, Board of Governors of the Federal Reserve System, February 2021.
3. 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.
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. Gompers, Paul, Kaplan, N. Steven, and Mukharlyamov, Vladimir, 2016, What Do Private Equity Firms Say They Do? *Journal of Financial Economics*, 449-476.
6. Cochrane, John, 2011, Presidential Address: Discount Rates, *Journal of Finance*, 1047-1108 – Part 1, 2, and 3.
7. Cochrane, John, 2011, Presidential Address: Discount Rates, *Journal of Finance*, 1047-1108 – Part 4.
8. Jylha, Petri, 2018, Margin Requirements and the Security Market Line, *Journal of Finance* 78, 1281-1322.
9. Daniel, Kent and Moskowitz, Tobias, 2016, Momentum Crashes, *Journal of Financial Economics* 122, 221-247.
10. Miller, Merton, 1988, The Modigliani-Miller Propositions after Thirty Years, *Journal of Economic Perspectives* 2, 99-120.
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. Brau, James C. and Stanley. E. Fawcett, 2006, Initial Public Offerings: An Analysis of Theory and Practice, *Journal of Finance* 61, 399-436.
13. Jorion, Philippe. 2000, Risk Management Lessons from Long-Term Capital Management, *European Financial Management* 6, 277-300.
14. Pedersen, Lasse H., 2009, When Everyone Runs for the Exit, *NBER Working Paper* 15297.
15. Duffie, Darrel, 2010, The Failure Mechanics of Dealer Banks, *Journal of Economic Perspectives* 24, 51-72.

Week	Date	Topic	Textbook Chapters	Article # (optional)
1	03/04	Financial Markets, Time Value of Money	1, 4	
2	03/11	Interest Rates and the Federal Reserve	5	1
3	Friday 03/12*	Valuing Bonds	6	(2) 3
4	03/25	Valuing Projects and Firms	7, 8	4 (5)
5	04/01	Valuing Stocks	9	6, 7
6	04/08	Risk and Return, midterm review	10, 11, Assignment 1	8 (9)
7	04/15	Midterm Exam/ Data Case		
8	04/22	Capital Structure	14, 15	10
9	04/29	Raising Equity and Debt	23, 24	(11) 12
10	05/06	Derivatives and Risk Management	20	13, 14
11	05/13	Option Valuation, final review	21 Assignment 2	15
12	05/20	Final Exam/Data Case		

* Makeup for 3/18 (Spring Break).

Course Website

ELMS/Canvas will be used to post lecture material (including slides for live lectures and video lectures) and assignments. Students are responsible for everything covered in live and video 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.

Live and Video Lectures

Live sessions will be complemented with short video lectures. Students are responsible for attending both live and video lectures. Please attend video lectures by Thursday before the live class meets as video lectures will be used to provide background necessary for understanding the class material and discussion.

Grading Policy

Midterm/ Data Case	25%
Final/ Data Case	25%
Assignments	10%
Problem sets	10%
Presentation	20%
Online Discussion	10%
Total	100%

Exams/Data Cases

There will be two exams: a mid-term and a cumulative final. Exams are take-home, and solved problems must be uploaded in ELMS before the deadline to receive credit. Given the take-home format of the exam, the exams will take the form of data cases. 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. Students are allowed to use books and their notes to complete the exam as well as online resources but must **work independently**. Any form of collaboration on the exams would be cheating and result in consequences as described in the Code of Academic Integrity.²

Assignments

There will be two assignments with due dates **April 8, 2020** and **May 13, 2021**. 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.

Problem sets

After each class, you are responsible for solving the problems on slides and uploading your solutions in ELMS **before Thursday, 7:45 pm for the subsequent class**. The instructor will post the solutions at that point and therefore no credit can be given for late uploads.

Presentations

Each pair of students will be responsible for one paper on the reading list (to be assigned during the 1st class) and prepare a *15-minute* presentation summarizing the article and answering the discussion questions for the article. The presentations should be recorded in Zoom (as a group meeting) and narrated in a similar way as if you presented in a classroom setting. Each presentation will include a brief summary of the article (10 minutes) and a summary of the online discussion including correctly answering the discussion questions (5 minutes). Each presenter should narrate one part of the presentation. The narrated presentations in .mp4 or .mov format must be uploaded to Panopto Recordings in ELMS to create a link for the rest of the class to stream **by Wednesday, 7:45pm**, at least 24 hours before the class for which the reading was assigned. Also please email me a first draft of the presentation (except the summary of the online discussion) by **Monday, 7:45pm** so I can cross check that your answers to the discussion questions are correct. I will prepare the presentation for article #1 to provide an example and set expectations for the presentation.

² <https://policies.umd.edu/policy/d3c4519f-99f1-42e9-a224-300e746a7a13/>

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. Discussion questions will be posted by the instructor. All students are expected to participate in *all discussions*. 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 Wednesday 7:45pm 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 but before solutions are posted, 50% after solutions are posted but no later than 48 hours after the deadline. 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. 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 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.

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.

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.