

# Econ 670: Financial Economics

## Course Information and Syllabus

### Fall 2021

**Ilknur Zer, Ph.D.**

**Email:** izer@umd.edu

**Office Hours:** Mondays 5:30pm–6:30pm, and by appointment

**Class:** 6:30pm–7:15pm and 8:00pm–8:45pm on Wednesdays

**Class Location:** Online

**Teaching Assistant:** Jake Kramer (KramerJ@umd.edu)

**TA Office hours:** Tuesdays 5:15pm–6:00pm

**Midterm:** 10/13/2021

**Final:** 11/17/2021

## 1 General Information

### 1.1 Online instruction

Everything in the course, **except midterm and final exams**, will be held online via Zoom. There will be no face-to-face meetings. I prefer that you stay muted during the classes, unless asking a question, and keeping your video on. 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 will 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 (20%), data cases (15%), presentations (10%), quizzes (5%), online discussions (10%), a midterm exam (15%), and a final exam (25%).

**Assignments:** There will be two assignments (see class calendar below for due dates) with submission deadlines of 6:45pm (i.e. before class). The assignments must be submitted through ELMS. The assignments will be posted

about 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 (see class calendar below for due dates) 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 3) 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.

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 upcoming 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: Your exams will be in-person and proctored.** No collaboration is permitted in midterm and final exams. It a closed book exam. You can (and possibly should) use calculators or excel. See “Excused Absences” under “Other Policies” for permissible exceptions. The exams will take place in UMD DC suite: 1400 16th Street, NW, suite 140.

**TA office hours:** Each week, I will post practice questions through ELMS. Your TA will solve these questions during his office hours. I strongly advise you to try to solve the questions by yourselves before the office hours and attend the office hours to ask questions/go over the solutions.

### 3 Journal articles:

1. Monetary Policy Report, Part 1 –Recent Economic and Financial Developments, Board of Governors of the Federal Reserve System, July 2021. [Ilknur](#)
2. Monetary Policy Report, Part 2 –Monetary Policy, Board of Governors of the Federal Reserve System, July 2021. [Mulugeta](#)
3. Reinhart Carmen, and Kenneth S. Rogoff, 2011, “From Financial Crash to Debt Crisis”, American Economic Review P&P, 101, 1676–1706. [Jacob](#)
4. Danielsson, Jon, Marcela Valenzuela, and Ilknur Zer, 2018, “Learning from history: Volatility and financial crises.” The Review of Financial Studies, 31, 2774-2805. [Ian](#)
5. 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. [Neel](#)
6. 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. [Taylor](#)
7. Fama, Eugene, and Kenneth French, 2005, “Financing decisions: Who issues stock?” Journal of Financial Economics, p. 549-582. [Atklit](#)
8. Cochrane, John, 2011, “Presidential Address: Discount Rates”, Journal

of Finance, 1047-1108 – Part I, II, and III

9. Baker, Scott, Bloom B, Davis, S., Kost, K., Sammon, M. and Viratyosin, T., 2020, “The Unprecedented Stock Market Impact of COVID-19”, NBER Working Paper No. 26945 **Michael**
10. Correia, Sergio, Stephan Luck, and Emil Verner., 2020, “Pandemics depress the economy, public health interventions do not: Evidence from the 1918 flu.”, working paper. **Renard**
11. Fama, Eugene, Kenneth French, 2004, “The Capital Asset Pricing Model: Theory and Evidence”, Journal of Economic Perspectives, 18(3): 25-46. **Tope**
12. 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. **Arif**
13. Baker, Malcom, Jeffrey Wurgler, 2007, “Investor Sentiment in the Stock Market”, Journal of Economic Perspectives, 21(2): 129-151. **Natalie**
14. Barberis, N. and Thaler, R., 2002. “A survey of behavioral finance”, NBER Working paper. **Boris**
15. Sias, R.W., 2004. Institutional herding. The Review of Financial Studies, 17(1), pp.165-206. **Corey**
16. Edmans, Alex, Diego Garcia, and Oyvind Norli, 2007, “Sports Sentiments and Stock Returns,” Journal of Finance, 62(4): 1967-1998. **Jesse**
17. Miller, Merton, 1988, “The Modigliani-Miller Propositions after Thirty Years”, Journal of Economic Perspectives 2, 99-120. **Kenneth**
18. Jorion, Philippe. 2000, “Risk Management Lessons from Long-Term Capital Management”, European Financial Management 6, 277-300. **Christopher**

## 4 Tentative Course Calendar

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Week	Date	Topic	Chapter	Article
1	1-Sep	Time Value of Money	4	
2	8-Sep	Interest Rates and the Federal Reserve	5	1
3	15-Sep	Valuing Bonds	6	2, 3, 4, 5
4	22-Sep	Investment decision rule	7	6, 7
5	29-Sep	Valuing Stocks/ <b>Assignment 1</b>	9	8, 9, 10
6	6-Oct	Risk and Return/ <b>Data case 1</b>	10, 11	11, 12
7	13-Oct	<b>Midterm Exam</b>		
8	20-Oct	Asset pricing 1	11, 12	
9	27-Oct	Asset pricing 2	12, 13	13, 14, 15, 16
10	3-Nov	Capital Structure / <b>Assignment 2</b>	14, 15	17, 18
11	10-Nov	Options / <b>Data case 2</b>	20, 21	
12	17-Nov	<b>Final Exam</b>		

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## 5 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/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 sig-

nificant 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 DC 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. However, the DC program takes just 1 week off between terms. 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 DC program is equivalent to 133% of a "normal" full-time load in the traditional semester-based program ( $8/6 = 1.33$ ).

**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.

**Academic Integrity:** The University of Maryland has a nationally recognized Code of Academic Integrity. You should inform yourself about the UMD policies related to academic misconduct:

<https://www.studentconduct.umd.edu/home/current-students>.

The exams in this course will ask students to affirm the UMD Honor Pledge: “I pledge on my honor that I have not given or received any unauthorized assistance on this assignment/examination.”

Cases of academic misconduct, including plagiarism and giving or receiving unauthorized assistance on exams, will be referred to the UMD Office of Student Conduct. If found responsible for academic misconduct, students can be subject to sanctions. The standard sanction for graduate students found responsible for cheating on exams is expulsion from the university.

**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:

[www.president.umd.edu/administration/policies/section-v-student-affairs/v-100g](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 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

you are 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 and confidential 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, and the Testing Office, all described at <http://www.counseling.umd.edu/>

**Graduate Academic Counselor:** The UMD Graduate School also has an academic counselor available to support students who are having difficulty navigating mental health resources on campus, are considering a leave of absence and/or need assistance finding mental health care off campus. The Graduate Academic Counselor also facilitates bi-weekly Graduate Student Circle Sessions which provide an opportunity to learn about resources and connect with other graduate students. Students can learn more about the

Graduate Academic Counselor by going to: <https://gradschool.umd.edu/gradcounselor>

**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).

**Course Evaluations:** Near the end of the term, you will receive an email inviting you to submit a voluntary and anonymous course evaluation. Your feedback on courses will be very helpful in improving the quality of instruction in our program.

**Building Access:** The door to the building at 1400 16th Street is unlocked on weekdays until 7:00 PM. Students who arrive after 7:00 PM or on weekends will find the door locked. You can 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 always also 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're with the University of Maryland (suite 140 in 1400 16th Street), they should ask you for a password. When you tell them the password, they will buzz you in. You can get the password from the program coordinator, the TAs, 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.