

## **Econ 670: Financial Economics, Fall 2022**

**University of Maryland-College Park**  
**Department of Economics, Washington, DC location**  
**Master of Sciences in Applied Economics Program**

**Ilknur Zer, Ph.D.**

**Email:** izer@umd.edu

**Office Hours:** Mondays 5:30pm–6:30pm, **via zoom**, Tuesdays before/after the class, and by appointment

**Class: in-person** Tuesdays 6:45pm–9:30pm, with a 15-minute break

**Class Location:** DC Campus, Classroom B

**Teaching Assistant:** Andrea Vilchez (andreav@umd.edu)

**TA Office hours:** Wednesdays 6:30pm–7:30pm, **via zoom**

**Midterm:** 11-October-2022

**Final:** 15-November-2022

# **1 General Information**

## **1.1 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.

## **1.2 TA office hours**

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

### **1.3 Course and Program Objectives**

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**

The 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.

### **1.4 Communication— Email**

You are welcome to contact me via email, and I will try my best to respond within 36 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 or by appointment).

The University has adopted email as the primary means of communication outside the classroom, and I will use it to inform you of important announcements. The University creates an “@umd.edu” email address for every graduate student. All official UMD communications will be sent to students

at their “@umd.edu” email address. You are responsible for reading your @umd.edu email address, including ELMS/Canvas Announcements I send to the class. You should make sure ELMS/Canvas Announcements and messages are forwarded to an email address that you check regularly. 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.

## 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%), online discussions and presentations (15%), quizzes (5%), a midterm exam (20%), and a final exam (25%).

**Assignments:** There will be two assignments (see class calendar below for due dates) with submission deadlines of 6:30pm (i.e. before the 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 6:30pm (i.e. before class). **The solutions must be submitted through ELMS.** The aim of data cases is 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 on how to access and download the necessary data.

**Online discussions and presentations:** An important part of the class will be weekly presentations and online discussions. These discussions will cover the reading assignments for the upcoming class, listed below. We will use an asynchronous online discussion board in ELMS.

Online discussions grade includes the “quality” of your presentation, your ability to lead the discussions, as well as your attendance on other students’ discussions.

*I will be the presenter and the discussion leader for the first article to provide an example and set expectations for the presentation.*

1. **Presentation:** You will team up with another student (so 2 students) to understand and read the paper. **Each one of you** will prepare and give one 10-12 minute presentation in total (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; (iii) your critical thinking (what is your take from the article? What did you like the most?); and (iv) Your suggested two or three discussion questions related to the article.

The presenting team is 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 it 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).
2. **Discussions:** You will post your previously recorded presentations and add three discussion questions. You are expected (as a team) to lead and manage the discussions. During the online discussions, we will discuss those journal articles. **All students are expected to participate in all discussions by asking constructive questions or answering the posted discussion questions.** The discussions will be open from Friday Midnight to Wednesday midnight. The team

will manage and lead the discussions.

**Quizzes:** There will be a few pop-up 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.

**Exams: Your exams will be in-person and proctored.** No collaboration is permitted in midterm and final exams. It is 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.

### 3 Journal articles:

1. Monetary Policy Report, Part 1 –Recent Economic and Financial Developments, Board of Governors of the Federal Reserve System, June 2022. [Ilknur](#)
2. Monetary Policy Report, Part 2 –Monetary Policy, Board of Governors of the Federal Reserve System, June 2022. [Henry and Atklit](#)
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. [Zachary](#)
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. [Sumaiyah and Farwa](#)
5. Fama, Eugene, and Kenneth French, 2005, “Financing decisions: Who issues stock?” *Journal of Financial Economics*, p. 549-582. [Matthew and Nitul](#)
6. Cochrane, John, 2011, “Presidential Address: Discount Rates”, *Journal of Finance*, 1047-1108 – Part I, II, and III [Diego](#)
7. 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 **Robert**
8. Correia, Sergio, Stephan Luck, and Emil Verner., 2020, “Pandemics depress the economy, public health interventions do not: Evidence from the 1918 flu.”, working paper. **Nitul**
  9. Fama, Eugene, Kenneth French, 2004, “The Capital Asset Pricing Model: Theory and Evidence”, *Journal of Economic Perspectives*, 18(3): 25-46. **John and Steven**
  10. 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. **Mackay and Scott**
  11. Baker, Malcom, Jeffrey Wurgler, 2007, “Investor Sentiment in the Stock Market”, *Journal of Economic Perspectives*, 21(2): 129-151. **Leore and Eric**
  12. Barberis, N. and Thaler, R., 2002. “A survey of behavioral finance”, NBER Working paper. **Jade and Ross**
  13. Miller, Merton, 1988, “The Modigliani-Miller Propositions After Thirty Years”, *Journal of Economic Perspectives* 2, 99-120. **Pierre and David**
  14. Jorion, Philippe. 2000, “Risk Management Lessons from Long-Term Capital Management”, *European Financial Management* 6, 277-300.

## 4 Course Calendar

Week	Date	Topic	Chapter	Article
1	30-August	Time Value of Money	4	
2	6-September <b>online</b>	Interest Rates and the Federal Reserve	5	1
3	13-September	Valuing Bonds	6	2, 3
4	20-September	Investment decision rule	7	4, 5
5	27-September	Valuing Stocks/ <b>Assignment 1</b>	9	6, 7, 8
6	4-October <b>online</b>	Risk and Return/ <b>Data case 1</b>	10, 11	
7	11-October	<b>Midterm Exam</b>		
8	18-October <b>online</b>	Asset pricing 1	11, 12	9, 10
9	25-October	Asset pricing 2	12, 13	11, 12
10	1-November	Capital Structure / <b>Assignment 2</b>	14, 15	13, 14
11	8-November	Options / <b>Data case 2</b>	20, 21	
12	15-November	<b>Final Exam</b>		

## 5 Other Policies

**Other Standard Policies for the Program and the University of Maryland:** Policies related to all graduate courses at the University of Maryland are posted on this page of the Graduate School's website:

<https://gradschool.umd.edu/faculty-and-staff/course-related-policies>

Please familiarize yourself with these policies related academic integrity, non-discrimination policy, accessibility, absences and accommodations, grading, academic standing, grievance procedures, and other important policies.

**Contact Hours:** Three credit master's-level courses at the University of Maryland require a minimum amount of contact between instructors and students. Our courses' 12 weekly 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 discussion boards. 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 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. 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 full-time load ( $8/6 = 1.33$ ).

**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.

**Excused Absences:** 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 to work with study partners, the teaching assistant, and the instructor 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've been 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. When classes need to be canceled during the semester, we make every effort to schedule makeup classes.

**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>

**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:** There is a smartphone app that can be used to enter our building after normal business hours. The program coordinator will provide information about this. We will also provide information about the code for entering the front door of our suite. Please make sure you are receiving the ELMS-Announcements that we send out to the program about these and other important matters.