

University of Missouri
Econ 4004/7001 – Financial Economics
Fall 2019

Economics 4004/7001 meets Wednesdays 3:00 pm-5:30 pm in Middlebush 211

Instructor: Robert Hazel, rahvzr@missouri.edu, Tel: 573-884-4999, Cell: 571-723-3515

Office hours: MWF 10:00AM-11:30AM and by appointment, 326 Professional Building.

Course description: What determines the values of stocks and bonds? Is it true that “a blindfolded monkey throwing darts could select a portfolio that would do just as well as one carefully selected by experts?” How do firms decide whether to raise funds by issuing stocks or bonds? What is relationship between risk and return for financial assets?

Financial economics is economics applied to tradeable financial assets, such as stocks and bonds. The main topics we will cover are the valuation of stocks, bonds and other financial assets; portfolio theory; the capital asset pricing model; the efficient market hypothesis; capital structure theories; options and other derivatives; principal/agent issues, and behavioral finance. We will use simple math and current examples to understand and apply the theories.

Course objectives and learning outcomes: Gain familiarity with financial economics concepts and understand how they apply in the real world.

Prerequisites: Econ 1014, Math 1400 (or equivalent), basic statistics, and some familiarity with linear regressions.

Required Text: *The Economics of Financial Markets*, R.E. Bailey.

Canvas: Course materials including handouts, supplemental readings, homework, and any important course announcements will be posted on the Canvas site.

Grading:

Problem sets 30%

Class presentation 10%

Midterm 25% - scheduled for Wednesday, October 8

Final 35% - scheduled for Wednesday, December 4

Six problem sets (5 points each) will be assigned. Problem sets are open-book/open-note and you are encouraged to work with other students and/or seek help from the teaching assistant. Answers will be due no later than the start of class on the due dates; late assignments receive no credit.

Each student will be required to make a short presentation on a topic discussed in class. The presentation is limited to 7 minutes and, if PowerPoint is used, to no more than 5 slides. [Note: If the class gets too large, we may need to convert the presentation requirement to that of writing a short paper of about 1,000 words.]

For Econ 7001 students, the required paper is longer and the course grading weights are different. Problem sets: 25%; Paper 25%; Midterm 20%; and Final 30%. For Econ 7001 students, the paper should be about 2,500 words.

Exams: The midterm and final exams are **closed book**. There are no make-up exams, except possibly in the event of a medical or personal emergency. In case of an unavoidable emergency, you will be excused from the exam **if and only if** you provide me with your justification via e-mail and submit proper documentation in a timely manner (e.g. military orders in advance, or a doctor's note/published obituary after the fact).

Attendance: Lectures will cover a significant amount of material that is not included in the text or assigned readings. Therefore, students are expected to attend the lectures and are responsible for material covered during lectures regardless of whether it is included in the readings.

Class Schedule

Week	Topics	Reading	Homework/Test
Week 1 8/21	Asset Price Determination Arbitrage, The Role of Time, Market Efficiency	B 1, 2.1, 10.1&Appendix	
Week 2 8/28	Introducing Risk and Uncertainty	B 4	
Week 3 9/4	Portfolio Theory	B 5	HW #1 due Wed. 9/4
Week 4 9/11	Capital Asset Pricing Model Factor Models	B 6, 8, 9	
Week 5 9/18	Efficient Market Hypothesis Evidence, Bubbles, Equity Premium Puzzle	B 3, 10, 11	
Week 6 9/25	Bond Markets Term Structure of Interest Rates	B 12, 13	HW #2 due Wed. 9/25
Week 7 10/2	Corporate Governance and Agency Issues	Canvas	HW #3 due Wed. 10/2
Week 8 10/9	MIDTERM IN CLASS WEDNESDAY 10/8		MIDTERM IN CLASS WED. 10/8
Week 9 10/16	Capital Structure Theory (Modigliani-Miller)	Canvas	
Week 10 10/23	Dividends and Stock Buybacks	Canvas	HW #4 due Wed. 10/23
Week 11 10/30	Mergers and Acquisitions	Canvas	HW #5 due Wed. 10/30

Week 12 11/6	Futures Markets	B 14	
Week 13 11/13	Options Markets	B 18-19	
Week 14 11/20	Behavioral Finance	Canvas	HW #6 due Wed. 11/20
Week 15 11/27	NO CLASS (Thanksgiving Break)		
Week 16 12/4	FINAL EXAM IN CLASS		PAPER DUE WED. 12/4

Academic Integrity

Academic integrity is fundamental to the activities and principles of a university. All members of the academic community must be confident that each person's work has been responsibly and honorably acquired, developed, and presented. Any effort to gain an advantage not given to all students is dishonest whether or not the effort is successful. The academic community regards breaches of the academic integrity rules as extremely serious matters. Sanctions for such a breach may include academic sanctions from the instructor, including failing the course for any violation, to disciplinary sanctions ranging from probation to expulsion. When in doubt about plagiarism, paraphrasing, quoting, collaboration, or any other form of cheating, consult the course instructor.

Accommodation of Disabilities

If you anticipate barriers related to the format or requirements of this course, if you have emergency medical information to share with me, or if you need to make arrangements in case the building must be evacuated, please let me know as soon as possible. If disability related accommodations are necessary (for example, a note taker, extended time on exams, captioning), please register with the Disability Center, S5 Memorial Union, 882-4696, and then notify me of your eligibility for reasonable accommodations. For other MU resources for students with disabilities, click on "Disability Resources" on the MU homepage.

Intellectual Pluralism

The University community welcomes intellectual diversity and respects student rights. Students who have questions or concerns regarding the atmosphere in this class (including respect for diverse opinions) may contact the Departmental Chair or Divisional Director; the Director of the Office of Students Rights and Responsibilities (<http://osrr.missouri.edu/>); or the MU Equity Office (<http://equity.missouri.edu/>), or by email at equity@missouri.edu. All students will have the opportunity to submit an anonymous evaluation of the instructor(s) at the end of the course.

Academic Inquiry, Course Discussion and Privacy

University of Missouri System Executive Order No. 38 lays out principles regarding the sanctity of classroom discussions at the university. The policy is described fully in Section 200.015 of the Collected Rules and Regulations. In this class, students may make audio or video recordings of course activity unless specifically prohibited by the faculty member. However, the redistribution of audio or video recordings of statements or comments from the course to individuals who are not students in the course is prohibited without the express permission of the faculty member and of any students who are recorded. Students found to have violated this policy are subject to discipline in accordance with provisions of section 200.020 of the Collected Rules and Regulations of the University of Missouri pertaining to student conduct matters.