

University of Missouri
Econ 4328/7328 – Financial Economics
Fall 2022

Economics 4328-01/7328-01 meets Tuesdays and Thursdays, 2:00-3:15 PM CT online via Zoom. This is a live synchronous class – students are expected to participate with their videos on.

Instructor: Robert Hazel, rahvzr@missouri.edu; Cell: 571-723-3515

Office hours: I will stay online at the end of each class. Also, please don't hesitate to request a Zoom meeting.

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 1500, and Stats 2500 (or equivalent).

Required Text: *Fundamentals of Corporate Finance, 5th ed* (2021), Berk, DeMarzo, Harford, available via AutoAccess as an e-book for about \$35.

Recommended Text: *A Random Walk Down Wall Street: The Time-Tested Strategy for Successful Investing, 12th ed* (2020), Malkiel. Explains many of the course concepts in plain English. Available in paperback for about \$15 or as an e-book for less. Don't substitute one of the early editions, as the book has changed substantially over time.

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

Grading for Econ 4328:

- Problem sets 30%
- Midterm 25%
- Final 25%
- Paper or class presentation 10%
- Participation 10%

For Econ 7328 students, the required paper is longer, 2,000 words, and the course grading weights are different. Problem sets: 25%; midterm 20%; final 25%; paper 20%; participation 10%.

I reserve the right to raise the grade of students who make a substantial contribution to class discussions.

Final course grades will be assigned to undergraduates as follows:

A+ = 97-100+	B- = 80-82	D = 63-66
A = 93-96	C+ = 77-79	D- = 60-62
A- = 90-92	C = 73-76	F = 59 and lower
B+ = 87-89	C- = 70-72	
B = 83-86	D+ = 67-69	

The graduate school grading scheme does not include D grades.

In determining your raw score for the course, do not rely on the Grade Total column in Canvas because it does not weight assignments correctly. Take the raw scores from Canvas and then weight them based on the syllabus weightings.

Problem sets:

- Will be posted most weeks and answered on Canvas.
- Are due by 11:59 pm on the specified date.
- Are open-book/open-note and you are encouraged to work with other students and/or ask me for help.
- Will receive a score of 0 if submitted late.

Exams will be held during the scheduled class time. There are no make-up exams.

Paper or class presentation: A short paper is required on a topic in financial economics. For undergraduates, papers should be at least 1,200 words or 4 pages, excluding any tables, graphs, or references. (For Econ 7328 students, the required paper is 2,000 words.)

Papers should be double spaced in 12-point font with one-inch margins all around. You should use standard social science conventions for citations and references. For example, use (last name, year) in the text and include the full reference in a list at the end of your paper. See, e.g., <https://www.aeaweb.org/journals/policies/sample-references>

As an alternative to the paper (in fact, the preferred choice if this class is small), Econ 4328 students, but not 7328 students, can make a short presentation on a topic in financial economics. The presentation is limited to 10 minutes and, if PowerPoint is used, to no more than 5 slides.

Participation: Class participation will be based on two elements: (1) 5 pts based on each student serving as a class discussion leader for one financial news article to be assigned by the instructor; and (2) 5 pts for video-on participation during Zoom class sessions. Students should expect to participate with their videos on, and to be called on. All students start with 5

participation points and get three “free” class absences. After that, 0.5 points is deducted for each missed class.

Lectures and class discussion will cover a significant amount of material that is not included in the text or assigned readings. Students are responsible for material covered during lectures regardless of whether it is included in the readings.

Class Schedule

FCF: Fundamentals of Corporate Finance; RW: Random Walk Down Wall Street

Week beginning	Topics	Reading	Homework/Test
Week 1 8/22	Introduction, important ideas in financial economics, useful terms and concepts	FCF 1-2, RW 1	
Week 2 8/29	Time value of money: valuing cash flow streams	FCF 3-4, 8	
Week 3 9/5	Expectations, inflation, interest rate risk, and bond prices	FCF 5-6	
Week 4 9/12	Stock valuation	FCF 7, 10.1-10.3, RW pp 122-133,	
Week 5 9/19	Risk and Return Modern Portfolio Theory	FCF 11-12, RW 8,	
Week 6 9/26	Capital Asset Pricing Model	RW 9, pp 256-269	
Week 7 10/3	Efficient Market Hypothesis Evidence for and against	FCF 10.4, RW 2, 7, pp 92-100, 139-144, 157-158	
Week 8 10/10	Review on Tuesday MIDTERM IN CLASS THURSDAY 10/13		MIDTERM IN CLASS THURS. 10/13
Week 9 10/17	Corporate governance and agency issues	FCF 54-56 & Canvas	
Week 10 10/24	Capital Structure Theory (Modigliani-Miller)	FCF 16	
Week 11 10/31	Dividends and stock buybacks	FCF 17	
Week 12 11/7	Mergers and acquisitions	FCF 22, Canvas	
Week 13 11/14	Derivatives and options	FCF 21, RW pp 405-443	

Week 14 11/21	THANKSGIVING BREAK		
Week 15 11/28	Behavioral finance	FCF 10.5, RW 10, Canvas	
Week 16 12/5	Review on Tuesday FINAL EXAM IN CLASS THURS 12/8		PAPER DUE FRI. 12/9

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 or the [Office of Academic Integrity](#).

Students are expected to adhere to this honor pledge on all graded work whether or not they are explicitly asked in advance to do so: "I strive to uphold the University values of respect, responsibility, discovery, and excellence. On my honor, I pledge that I have neither given nor received unauthorized assistance on this work."

Accommodation of Disabilities

The goal of the University of Missouri is to ensure an inclusive learning environment for all students. [The University of Missouri Disability Center](#) provides services and accommodations for students to participate fully in the learning experience and to experience equitable evaluation of their performance. Students (including online students) with a documented disability can contact the Disability Center to establish an [Accommodation Plan](#). Documented disabilities include hearing, vision, mobility, learning and attention, psychological health, and physical health. Students' accommodations are implemented with the input of students to maximize the learning experiences. The MU Disability Center keeps information about a student's disability confidential.

Please notify me of your eligibility for accommodations as soon as possible. Additionally, if there are aspects of the course that present as barriers, such as inaccessible course content (e.g., learning assessments, PowerPoints, non-captioned videos, images, tables, PDFs) or if you need an immediate accommodation due to an injury, please contact me or the Disability Center as soon as possible.

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 [Office of Academic Integrity](#), or the [MU Equity Office](#).

Academic Inquiry, Course Discussion, and Privacy

When students record something that happens in a course (a lecture, class discussions, meetings, etc.) it has an impact on the rights of the people captured in that recording. For example, the instructor and the

University may have rights to the intellectual property contained in that recording. At the same time, another student who may have been recorded has the right to privacy. In order to protect these rights, MU employs a policy (called “Executive Order No. 38”) to govern both situations you may encounter while taking a course – when an instructor allows recordings and when they do not.

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 who violate 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.

FERPA

The Family Educational Rights and Privacy Act (FERPA) of 1974 is a federal law designed to protect the privacy of educational records; to establish the rights of students to inspect and review their education records; and to provide guidelines for the correction of inaccurate and misleading data through informal and formal hearings. The law applies to any individual who is or has been in attendance at an institution and regarding whom the institution maintains educational records. Once students have matriculated to the University of Missouri, i.e. enrolled in course work, FERPA rights transfer to the student, regardless of the student’s age.

Students can enable certain individuals to have access to their education records by signing a FERPA waiver. The consent must specify records to be disclosed, state the purpose of the disclosure and identify the party or class of parties to whom the disclosure must be made.

Nondiscrimination Policy

The University of Missouri does not discriminate on the basis of race, color, national origin, ancestry, religion, sex* (including gender), pregnancy, sexual orientation, gender identity, gender expression, age, disability, protected veteran status, and any other status protected by applicable state or federal law. Discrimination includes any form of unequal treatment such as denial of opportunities, harassment, and violence. *Sex discrimination includes rape, sexual assault, sexual harassment, unwanted touching, stalking, dating/domestic violence, stalking, and sexual exploitation. Retaliation for making or supporting a report of discrimination or harassment is also prohibited.

If you experience discrimination or sexual violence, you are encouraged (but not required) to report the incident to the MU Office for Civil Rights & Title IX. Learn more about your rights and options at civilrights.missouri.edu or call 573-882-3880. You also may make an anonymous report online.

If you are a survivor, or someone concerned about a survivor, and need immediate information on what to do, see RSVP Resources page. Both the Office for Civil Rights & Title IX and the RSVP Center can provide assistance to students who need help with academics, housing, or other issues.

In the event that you choose to write or speak about having experienced any of these forms of prohibited discrimination or harassment, Mizzou policies require that, as your instructor, I share this information with the MU Office for Civil Rights & Title IX. They will contact you to offer information about resources, as well as your rights and options as a member of our campus community.

Mental Health

The University of Missouri is committed to supporting student well-being through an integrated network of care, with a wide range of services to help students succeed. The MU Counseling Center offers professional mental health care, and can help you find the best approach to treatment based on your needs. Call to make an appointment at 573-882-6601. Any student in crisis may call or go to the MU Counseling Center between 8:00-5:00 M-F. After hours phone support is available at 573-882-6601.

Visit our website at <https://wellbeing.missouri.edu/> to take an online mental health screening, find out about workshops and resources that can help you thrive, or learn how to support a friend. Download Sanvello, a phone app that teaches skills and strategies to help you maintain good mental health. Log in with your Mizzou e-mail to unlock all the tools available through Sanvello at no additional cost to you.

Last date of attendance and impact on financial aid

Federal regulations for financial aid require the student financial aid office to document the attendance of students who have received federal financial aid if they do not successfully complete any courses during the term. As a result, the last day of attendance (or activity) for any student receiving an F, U, or FN in this course will be recorded in the grade roster and reported to the financial aid office. Based on the last day of attendance, students may be required to repay a portion of their financial aid award for the semester.

A student's last day of attendance (or activity) is the last day on which a student participates in an academically-related activity at the University. These include:

- Attendance in class, lab, or an instructor's office hours
- The completion of an assignment or examination
- An appointment with a professor or e-mail correspondence regarding course material
- (Online courses only) For online courses, the last day a student submits an assignment or exam. Only logging into an online class without participating is *not* acceptable for last day of attendance

Please note that discussing a course withdrawal or notifying the instructor of an absence in class does not constitute participation for financial aid purposes. Moreover, any office hour visits or email correspondence must be related to the course material.

Netiquette

Your instructor and fellow students wish to foster a safe online learning environment. All opinions and experiences, no matter how different or controversial they may be perceived, must be respected in the tolerant spirit of academic discourse. You are encouraged to comment, question, or critique an idea but you are not to attack an individual. Our differences, some of which are outlined in the University's nondiscrimination statement, will add richness to this learning experience. Please consider that sarcasm and humor can be misconstrued in online interactions and generate unintended disruptions. Working as a community of learners, we can build a polite and respectful course ambiance.

Religious Holidays & Accommodations

Many religious faiths are represented in the student body. The University of Missouri does not restrict student free exercise of religion, unless 1) the restriction is in the form of a rule of general applicability, and does not discriminate against religion or among religions; and 2) it can be demonstrated that the application of the restriction is essential to furthering a compelling university interest, and is not unduly restrictive

considering the relevant circumstance. The policy of the University attempts to strike a reasonable balance between accommodating the religious practice of students and meeting academic needs and standard.

Consult IDE's [Guide to Religions](#) for the form that can be used to notify an instructor of an absence associated with religious practice. Students are expected to notify their instructor(s) by completing and submitting this form in a manner that is consistent with the procedure outlined in the university's policy on student religious accommodation. Providing false information regarding sincerely held religious practice is a violation of the university's Standard of Conduct and will not be tolerated.