

University of Missouri  
Econ 4328/7328 – Financial Economics  
Spring 2023

**Economics 4328-01/7328-01** meets Tuesdays and Thursdays, 9:30-10:45 AM 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](mailto: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+ = 98-100+	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. An unexcused absence from an exam will receive a score of 0 on that exam.

**Paper or class presentation:** A short paper is required on a topic in financial economics. Your paper should provide some insight that goes beyond summarizing material that we have covered in class. Grading will be based on quality of the analysis, insight, and writing quality. 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.

Late paper submissions will lose 2 points (out of 10) for each of the first three days late, and after that will receive a score of 0.

**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 1/16	Introduction Time value of money: valuing cash flow streams	FCF 1-2, RW 1	
Week 2 1/23	Bond valuation	FCF 3-4, 8	
Week 3 1/30	Stock valuation	FCF 5-6	
Week 4 2/6	Risk and Return	RW pp 122-133, FCF 7, 10.1-10.3	
Week 5 2/13	Modern Portfolio Theory	RW 8, FCF 11-12	
Week 6 2/20	Capital Asset Pricing Model	RW 9, pp 256-269	
Week 7 2/27	Efficient Market Hypothesis	FCF 10.4, RW 2, 7, pp 92-100, 139-144, 157-158	
Week 8 3/6	<b>MIDTERM IN CLASS THURSDAY 3/9</b>		<b>MIDTERM IN CLASS THURS. 3/9</b>
Week 9 3/13	Corporate governance and agency issues	FCF 54-56 & Canvas	
Week 10 3/20	Capital Structure Theory (Modigliani-Miller)	FCF 16	

Week 11 3/27	NO CLASS (Spring Break)		
Week 12 4/3	Dividends and stock buybacks	FCF 17	
Week 13 4/10	Mergers and acquisitions	FCF 22, Canvas	
Week 14 4/17	Derivatives and options	RW pp 405- 443, FCF 21	
Week 15 4/24	Behavioral finance	RW 10, FCF 10.5, Canvas	
Week 16 5/1	<b>FINAL EXAM IN CLASS THURS 5/4</b>		<b>PAPER DUE FRI. 5/5</b>

## ADMINISTRATIVE MATTERS

### 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.

### [Standard of Conduct for Academic Integrity](#)

In addition, 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."

### Students with 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 establish an accommodation plan with the [MU Disability Center](#), S5 Memorial Union, 573- 882-4696, and then notify me of your eligibility for reasonable accommodations. For other MU resources for persons with disabilities, click on "Disability Resources" on the MU homepage.

### Acceptable Use

The University of Missouri's Acceptable Use Policy (AUP) for information technology applies to Mizzou websites. The AUP addresses federal and state laws, university regulations, intellectual-property rights, software-licensing requirements and prohibitions against plagiarism and obscenity. This policy applies to all users including faculty, staff, students, and guest users of University of Missouri computer networks, equipment, or connecting resources. [UM System Acceptable Use Policy](#)

## **Copyright**

This section helps you understand copyright in course materials, student work and pages published on Mizzou websites. [UM System Copyright Information](#)

## **Executive Order No. 38**

When you 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, your 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 your instructor allows recordings and when he or she does not allow them.

[Executive Order No. 38](#)

## **FERPA**

The University of Missouri maintains educational records of students in accordance with the Family Educational Rights and Privacy Act of 1974 (FERPA). Related topics include privacy policies at MU, display of student directory information, and details about how MU manages FERPA-protected information.

[Family Educational Rights and Privacy Act \(FERPA\)](#)

## **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, or the MU Equity Office.

[Statement on Intellectual Pluralism](#)

## **Statement of Nondiscrimination**

The University of Missouri does not discriminate on the basis of race, color, religion, national origin, sex, sexual orientation, gender identity, age, genetics information, disability, or status as a protected veteran.

[MU Statement of Nondiscrimination](#)

If you experience discrimination or sexual violence, you are encouraged (but not required) to report the incident to the MU Office of Institutional Equity. Learn more about your rights and options at the [Office of Institutional Equity](#) or by calling 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 of Institutional Equity 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 of Institutional Equity. 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.