

University of Minnesota

Econ 4751 – 001

Financial Economics

Summer 2022

Lecture: 5:30 p.m. – 7:30 p.m.; Tue, Wed, Thu;

on Zoom <https://umn.zoom.us/j/94627216207>

Instructors:

Name: Jakub Pawelczak

Email: pawel042@umn.edu

Office: 3-152 Hanson Hall

Office Hours: Th 7:30-9:30pm (on Zoom. <https://umn.zoom.us/j/95318397595>)

Homepages and Email:

All assignments and other relevant material will be posted on Canvas. Please check the website regularly. Email is the best way to reach us. Allow up to 1 business day for email responses.

Emails must be professional and respectful. The right is reserved to not respond to any emails deemed inappropriate by the recipient.

Course Description:

Two main themes of the courses are:

1. Understanding the economics behind financial markets and assets prices.
2. Understanding individual investment decisions.

We start with an overview of the different roles of the financial industry and its importance. We will talk about portfolio choice and some methods of valuation for risky assets. We will study a frequently used model known as the CAPM. There will be a discussion of the Efficient Market Hypothesis. We will then use the binomial model to learn about option pricing the fundamental theorems of finance. There will be a unit on fixed income securities.

The objectives for the course are:

1. Learn the language of the financial world and be able to read articles about investing.
2. Perform calculations of important financial measures.
3. Understand and work with the classic Markowitz model of investor decision-making.
4. Learn some of the methods of asset valuation.
5. Understand the role of information in financial markets.

Course Topics:

1. Asset classes
2. Markowitz portfolio theory
3. Single Index Model
4. CAPM

5. Efficient Markets Hypothesis
6. Fixed income securities
7. Option pricing
8. Futures
9. Behavioral finance

Prerequisites:

Econ 3101 is a firm prerequisite for this course. We will be using tools from that class throughout this course. A good knowledge of probability theory will be extremely helpful, but we will review what is needed.

Textbook:

The textbook will be **Investments by Bodie, Kane and Marcus**, 10th edition, but the use of the 9th or 11th edition is also acceptable. There will be sections of the book assigned for reading before each topic we cover in the class. The reading is not a substitute for lectures. At times, we will discuss material that is not covered in detail in the book. There may also be material in the assigned readings that we do not talk about in lecture but you are still expected to know.

Course Requirements:

This course will consist of several problem sets, a midterm, and a final. You are responsible for the material covered in lecture as well as the assigned reading. Class attendance is not mandatory but is highly recommended. The material covered will be cumulative in nature so please try to not fall behind.

Problem Sets:

Assignments are due at 11:59pm on the due date. Assignments must be uploaded to Canvas by that time. No late assignments will be accepted. Only documented special circumstances (e.g., illness, family emergency) will exempt you from this rule.

For help on solving the problems you must attend class, where similar problems are solved, or come to office hours for help. If the standard office hour time does not work for you, please email me to set up an appointment.

You may do the homework assignments in groups of up to three students. There will be an empirical question on each homework assignment. This is meant to be done in Excel or a similar program. If you aren't familiar with Excel, try to form a group with a student that is familiar. The empirical question solution should contain a short write-up of what you did and what your findings were. It should be one or two pages.

There will be six assignments. They will all be due on Friday. June 17, June 24, July 1, July 15, July 22, and July 29.

Exams:

There will be one midterm exam and one final exam. All exams are take-home, open-book and open-note. However, you may not work with other students on the exams. **The midterm exam is scheduled for Thursday, June 30** during class time. There will be **no makeup exam for the midterm**. Only if you have documented special circumstances, your final exam score will count

for the midterm. If you disagree with the grading of the midterm, you may submit it for review. You must submit the disputes within one week of having been returned the exam.

The final exam is scheduled for Thursday, July 28, at the usual class time. The final exam is cumulative, and covers all the material in the course. If you have another final scheduled at the same time as our final or have 3 finals scheduled within 16 hours, you may take the makeup final at a date and time yet to be determined (most likely on the last day of exams). You **MUST** register for the makeup final with the appropriate documentation (printed registration from web including finals schedule) in the last 3 weeks of class.

Grades:

Final percentages will be determined by:

- Problem Sets: 30%
- Midterm: 30%
- Final Exam: 40%
- Active participation in class extra 10%

The grading scale is:

A	A-	B+	B	B-	C+	C	C-	D+	D	F
93%-100%	90%-92%	87%-89%	83%-86%	80%-82%	77%-79%	73%-76%	70%-72%	67%-69%	60%-66%	-59%

We reserve the right to lower these cut-off points (i.e. increase the letter grades for percentages), but we will not raise them (i.e. make it harder to get good grades).

Disabilities:

Students needing accommodations must contact Disability Services, <http://ds.umn.edu>.

The Department of Economics, in conjunction with Disability Services, will make appropriate accommodations for students with disabilities. Specifically, exams will be administered by Disability Services to meet student needs. Please contact the instructor as soon as possible if you need accommodation.

DEPARTMENT OF ECONOMICS -- PROCEDURES AND POLICIES 2020

CLASS ASSIGNMENTS:

Written answers to homework assignments must be typed; Graphs and numerical work need not be typed, but should be legible.

COURSE PREREQUISITES:

Students are expected to have successfully completed all prerequisites prior to taking an Economics course.

DISABLED STUDENTS:

Reasonable accommodations will be provided for all students with documented disabilities (by the DRC). Contact the instructor at the beginning of the semester to work out details. This information will be kept confidential.

STUDENT MENTAL HEALTH AND STUDENT COUNSELING SERVICES:

As a student you may experience a range of issues that can cause barriers to learning, such as strained relationships, increased anxiety, alcohol/drug problems, difficulty concentrating and/or lack of motivation. These mental health concerns or stressful events may lead to diminished academic performance or reduce a student's ability to participate in daily activities. University of Minnesota services are available to assist you with addressing these and other concerns. Information about confidential mental health services is available at: <https://boynton.umn.edu/clinics/mental-health>. Student Counseling Services website: <https://counseling.umn.edu/>

DROPPING A CLASS:

Termination of attendance alone is not sufficient to drop a class. You must notify the Registrar's office. Please contact your academic (college) adviser for details on this process and pay attention to University deadlines for add/drop.

INCOMPLETE GRADE:

Low class standing is not a valid reason for an Incomplete grade. An I is given only in exceptional circumstances like family emergencies or hospitalization; arrangements must be worked out between the student and instructor before the final exam. We require written proof of emergencies. Details about I grades and how to make it up are to be decided by the Instructor and student; you need to fill out the form.

MAKE-UP EXAMS:

Make up exams are possible for the final exam only if the student has another exam scheduled at the same time, or has three exams within a 16 hour period. This should be pre-arranged with the instructor at least three weeks before the final exam. Make up final exams may also be possible for documented medical emergencies.

SCHOLASTIC DISHONESTY:

"The College of Liberal Arts defines scholastic dishonesty broadly as any act by a student that misrepresents the student's own academic work or that compromises the academic work of another. Examples include cheating on assignments or exams, plagiarizing (misrepresenting as one's own anything done by another), unauthorized collaboration on assignments or exams, or sabotaging another student's work".

The University Student Conduct Code defines scholastic dishonesty as "Submission of false records of academic achievement; cheating on assignments or examinations; plagiarizing; altering, forging, or misusing a University academic record; taking, acquiring, or using text materials without faculty permission; acting alone or in cooperation with another to falsify records or to obtain dishonestly grades, honors, awards, or professional endorsement."

Penalties for scholastic dishonesty of any kind in any course will entail an "F" for the particular assignment/exam or the course. Website for information on Student Academic Misconduct -- <https://communitystandards.umn.edu/avoid-violations/avoiding-scholastic-dishonesty>

STUDENT CONDUCT AND CLASSROOM BEHAVIOR:

Students are expected to contribute to a calm, productive, and learning environment. Check the Student Conduct Code: https://regents.umn.edu/sites/regents.umn.edu/files/2019-09/policy_student_conduct_code.pdf to find out what is expected of you.

STUDY ABROAD IN ECONOMICS:

The Department encourages you to undertake Study Abroad. There are many courses in foreign countries that can satisfy some economics major, minor, or Liberal Education requirements. For more information, please contact our Undergraduate Advisers, Ms. Annie Bigley and Ms. Tiffany Kroeze Murphy, or the University's Learning Abroad Center at <http://www.umabroad.umn.edu/>

UNDERGRADUATE ADVISER:

Contact the Undergraduate Advisers if you wish to sign up for an Economics major or minor or to get information about institutions of higher study. Your APAS form will list your progress toward an Economics degree.

Adviser: Ms. Tiffany Kroeze Murphy and Ms. Annie Bigley (econadv@umn.edu); Sign up for appointments at econ.appointments.umn.edu Office 4-100 Hanson Hall, Phone number: 612-625-5893.

ECONOMICS UNDERGRADUATE PROGRAM INFORMATION:

Available on the Internet at: <https://cla.umn.edu/economics/undergraduate>. Registration policies are listed in the University Course Schedules and College Bulletins.

COMPLAINTS OR CONCERNS ABOUT COURSES:

All course grades are subject to department review.

Please contact your instructor or TA if you have any complaints/concerns about the course. If your concerns are not resolved after talking with your instructor, you can contact: Professor Simran Sahi, Director of Undergraduate Studies.

(Phone): 612-625-6353 and E-mail: ssahi@umn.edu