

**UNIVERSITY OF MINNESOTA**  
**ECON 4751 – 002**  
**FINANCIAL ECONOMICS**  
**SPRING 2017**  
**LECTURE: 04:00 P.M. - 05:15 P.M.; TUE, THU; HH 1-107**

**Instructor:**

Name: Salomon Garcia

Email: [garci795@umn.edu](mailto:garci795@umn.edu)

Office: 3-159 Hanson Hall

Class Moodle: <https://ay16.moodle.umn.edu/course/view.php?id=12640>

Office Hours: Tuesdays 12:30 P.M. – 02:30 P.M.

**Homepages and Email:**

All assignments and other relevant material will be posted on Moodle. Please check the website regularly. Email is the best way to reach me. 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 and valuing financial assets.
2. Portfolio choice.

We start with an overview of the financial world and a survey of the various types of assets. Later, we discuss bonds, derivatives, and other financial assets in more detail. We will talk about portfolio choice and some methods of valuation for risky assets. There will be a discussion of the Efficient Market Hypothesis, and if time allows, other topics such as equity valuation, arbitrage, and behavioral finance.

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. Become aware of some alternative models of decision-making and valuation.

**Prerequisites:**

Econ 3101 is a prerequisite for this course. We will be using tools from that class in the process of taking this course. A good knowledge of probability theory will be extremely helpful, and we may review some of that.

**Textbook:**

The textbook will be *Investments* by Bodie, Kane and Marcus, 10th edition. But the use of the 9th edition is also acceptable.

It is suggested that you review the textbook chapter before the lecture on a given subject. As you read, focus on the major concepts and issues; if anything is unclear, make it a point to ask for clarification in class. This familiarity with the material will make our lectures much more productive and educational for you.

### **Course Requirements:**

This course will consist of several problem sets, project assignments, 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 the beginning of the class on the due date. No late assignments will be accepted. Only documented special circumstances (e.g., illness, family emergency) will exempt you from this rule.

Some problem sets might involve the use of Excel, or other software useful for data analysis of your choosing. Data will be provided and students will be asked to carry some analysis based on that data. The University of Minnesota has online technology training available at <http://it.umn.edu/services/all/training-usability/training/index.htm>.

All assignments must be neatly done. According to the department policy, all homework must be typed, or they will receive a maximum grade of 75%. Graphs and calculations may be handwritten. Please staple your assignment.

**As problem set questions are used on the exams, no complete answer keys will be provided. 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.**

### **Projects:**

In addition to the normal problem sets, there are also two projects due during the semester. These are meant to be somewhere in between a problem set and a paper in terms of difficulty and presentation. The projects are extensions of class concepts that you work on in problem sets, but are also graded on the visual presentation. More details are available on the project assignment sheets.

### **Exams:**

There will be one midterm exam and one final exam. All exams are closed book and closed note. The midterm exam is scheduled for Thursday, March 2nd during class. 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 Tuesday, May 9<sup>th</sup> from 04:00 pm - 06:00 pm. 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: 15%
- Project 15%
- Midterm: 30%
- Final Exam: 40%

The grading scale is:

A	A-	B+	B	B-	C+	C	C-	D+	D	F
92%- 100%	90%- 91%	88%- 89%	82%- 87%	80%- 81%	78%- 79%	72%- 77%	70%- 71%	68%- 69%	60%- 67%	-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).

**Redemption Policy:**

Bad midterms happen. This should not erase the hard work done by diligent students, especially if they demonstrate at the end of the course that they know the material.

If you do better on the final exam than on your midterm, the weight from the midterm can be switched to the final exam **IF** your final homework grade is at or above **85%** (no rounding will be done to get you to an 85%, i.e. 84.99999999 is still less than 85%).

**Disabilities:**

Students with disabilities must be registered with Disability Services. Contact <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.

**Scholastic Dishonesty:**

Anyone committing scholastic dishonesty on an assignment or an exam will receive an F for the assignment or exam and the incident will be referred to the Office for Student Conduct and Academic Integrity. Among other things, this includes looking at the exam of another student, communicating with another student via any means during the exam, and continuing to work on

the exam when the exam is complete.

**Tentative Course Outline:**

The following topics are planned, but we reserve the right to substitute other topics depending on timing, demand, and other factors.

Chapter	Topic
1	The Investment Environment
2	Asset Classes and Financial Instruments
3	How Securities are Traded
5	Risk, Return, and the Historical Record
6	Capital Allocation to Risky Assets
7	Optimal Risky Portfolios
8	Index Models
9	Capital Asset Pricing Model
11	Efficient Market Hypothesis
14	Bond Prices and Yields
15	Term Structure of Interest Rates
18	Equity Valuation Models
20	Options Markets
21	Option Valuation
27	The Theory of Active Portfolio Management

The readings from the textbook will not necessarily include the full chapters above and may include some supplemental readings from other sources. There may be additional material presented in lecture. Students will be responsible for what is covered in assigned readings and lectures. Slides will be posted, but they are not a substitute for doing the reading and attending lecture.

## DEPARTMENT OF ECONOMICS -- PROCEDURES AND POLICIES 2016-2017

4-101 Hanson Hall (612-625-6353)

### 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 OSD). Contact the instructor at the beginning of the semester to work out details. This information will be kept confidential.

### STUDENT MENTAL HEALTH AND STRESS MANAGEMENT:

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, feeling down, 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 you may be experiencing. Information about confidential mental health services available on campus: <http://www.mentalhealth.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 -in the Economics Undergraduate Handbook.

### 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.

Please check this website for information on Student Academic Misconduct -- <http://www1.umn.edu/oscai/integrity/student/index.html>

### STUDENT CONDUCT AND CLASSROOM BEHAVIOR:

Students are expected to contribute to a calm, productive, and learning environment. Information on student classroom behavior issues is at: [http://www1.umn.edu/regents/policies/academic/Student\\_Conduct\\_Code.html](http://www1.umn.edu/regents/policies/academic/Student_Conduct_Code.html). Check the [Student Conduct Code](#) 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 Advisor, Ms. Madhu Bhat, or the University's Learning Abroad Center at <http://www.umabroad.umn.edu/>

### UNDERGRADUATE ADVISER:

Contact the Undergraduate Adviser 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. Madhu Bhat ( [econadv@umn.edu](mailto:econadv@umn.edu) ); Sign up for appointments at [econ.appointments.umn.edu](http://econ.appointments.umn.edu)

Office: 4-100 Hanson Hall , Phone number: 612-625-5893,

### UNDERGRADUATE HANDBOOK:

Available on the Internet at: <http://www.econ.umn.edu/> Click on Undergraduate Programs. We are in the process of updating it.

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](mailto:ssahi@umn.edu) .

January 10, 2017