

# ECON435 Financial Markets and the Macroeconomy

(Section 0301) Fall, 2015

## INSTRUCTOR

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## LECTURES

Tuesday and Thursday 5:00pm - 6:15pm in Tydings Hall (TYD) Room 0101

## COURSE WEBSITE

(ELMS) <https://myelms.umd.edu>.

## OFFICE HOURS

Tuesday 3:45pm - 4:45pm in my office TYD 4101E or by appointment via email

## COURSE DESCRIPTION

This course provides an introduction to the workings of financial markets and to the role of the financial markets for the broader macroeconomy. We will examine the basic role of financial markets, a wide range of financial assets including derivatives, and how they are traded. A number of technical tools for pricing financial assets, valuing risk and creating portfolios will be studied. Finally, we will discuss issues of broader relevance of the financial markets for the macroeconomy, with special emphasis on the 08-09 U.S. financial crisis and the European debt crisis.

## PREREQUISITE

Students are required to have taken ECON325 and ECON326. A number of statistical tools will be used. ECON321 or STAT400 equivalent is highly recommended as another prerequisite. Calculus methods will be frequently drawn. Students are recommended though not required to take one or more classes among MATH140, MATH141, MATH221, and MATH241. Must be in a major within the BSOS-Economics department; and must not have completed BMGT343. Finance majors will not receive credit for ECON435.

## TEXTBOOK AND READINGS

- The main **required** textbook: **Investments**. Zvi Bodie, Alex Kane and Alan Marcus. ISBN-10: 0077861671 / ISBN-13: 978-0077861674. Edition: 10 edition (September 9, 2013) Publisher: McGraw-Hill/Irwin.

If you have an old edition of this book and would like to use it, please reference the right chapters corresponding to each lecture and note the content differences. Otherwise, I *strongly* recommend you use the most recent version, the 10th edition.

- **Recommended** reading is the “**Financial Times**”, a leading daily business newspaper, to which I recommend that you subscribe. FT offers a discounted student subscription. You can also access a limited number of articles online for free, or read the print version in the library.

## GRADING

- 5 % Class participation
- 10% Virtual investment strategy and result summary report. Must be emailed to me by Midnight 12/08 (Tuesday).
- 15% (Group Assignment) Financial news analysis presentation and powerpoint slides submission. Date(s) of all presentations: 12/03 (Thursday) and 12/08 (Tuesday).
- 20% FOUR Problem Sets. Submission Deadlines (All Tuesdays: 09/15, 10/06, 11/17, 12/01)
- 20% Midterm Exam. 10/27 (Tuesday). 5:00 PM - 6:30 PM.
- 30% Final Exam. 12/15 (Tuesday). Time: TBA.

Your overall course grade will be a *weighted average* of scores of *all* the categories above. If at any point during the semester you face circumstances which prevent you from attending lecture, handing in assignments on time, and/or participating in exams, please contact me as *soon* as possible to manage the situation. There is little that can be done after an unsatisfactory grade has been assigned.

## STUDY PREPARATION AND PARTICIPATION

1. The lectures, problem sets, and exam questions will be *heavily* based on materials in the textbook. To a *lesser* extent, a few lectures will be extended to applications of textbook toolkit to understand the real world financial episodes, e.g. past financial crises and ongoing financial news.
2. Please do *read* and *study* the assigned chapters as listed in the last section corresponding to each lecture. In addition, reading FT news helps fulfill requirement of the *in-class presentation*. It also enables you to prepare yourself for in-class discussions, some applied questions in the problem sets and exams.
3. Furthermore, you are *encouraged* to join our **financial news discussion in early minutes of each lecture** to connect the theoretical concepts that we are studying to what is going on in financial markets day-to-day. This means regular class attendance is an expectation. Preparing for all these facets will help you to obtain a grade that easily meets your expectation.

## PRESENTATION

- *Presentation Format*. One of the main goals of our class is to actively follow actual events in financial markets. We will sign up groups of two or three students to review the most recent financial developments that have occurred since our first class up to the presentation date. Each group will prepare some powerpoint slides for a short presentation in class **approx. 10 ~ 12 min**. All team members *or* one representative of the group may stand in the front to give everyone the presentation.

- *Topic Selection.* Always keep you posted on important financial developments by reading newspapers (Financial Times or Wall Street Journal) or visiting online news sources (such as Bloomberg.com, MarketWatch.com, Yahoo! Finance, Google finance etc). You want to be exposed to a variety of topic opinions. Discuss with your group member, pin down a **key interesting question** that not only interests both of you but also falls in a general topic that roughly fits in our class coverage.
- *Content.* Your presentation will consist of two parts. First, spend some time to discuss how markets performed since our first lecture and comment on what caused this performance. Then, analyze and discuss the specific topic that have been chosen. You should do in-depth research, analysis and comments on the topic. Please submit your PPT slides by **emailing** me after your group presentation.

## VIRTUAL INVESTMENT GAMES

- *Overview.* The goal of an investment game is to gain more practical insights into financial markets, but the final performance of your investment portfolio **will not** impact your grade of this category. Rather, your investment strategy and result summary report to be handed is the **sole** determinant of your grade for this section. However, we will determine who earned the highest returns by the report submission date. The winner, the runner-up, the third place, and the rest of the 7 out of the top 10 students will be given **bonus points of 30 % , 20 % , 10 % and 5 %** respectively of his/her mid-term grade added to the the student's raw overall course grade. There is no penalty at all for not winning or incurring a loss.
- *Registration.* In order to gain some practical experience with financial markets, you should sign up for a free online account at <http://www.marketwatch.com/game/> using your uid user name (or variations of names that I can identify who you are) so that I can verify that you signed up. Once you have created an account, choose the option "Invited to join a game?" and enter the Game ID "**ECON435-UMD-FALL 2015**". You will be prompted to enter the password for the game that I will give you and join the game. This completes the setup.
- *Game Duration.* At the onset of the game on **September 7 (Monday)**, you will be given a virtual credit of \$100,000 that you can use to buy and sell stocks and other securities. The game will end at the closing hour of **December 4 (Friday)**. (The webpage has a detailed online help system to explain how to do this, and we will talk a little bit about how to pick your investments in class.) You are expected to buy at least one security by **September 14 (Monday)** and to follow your virtual portfolio closely so that you can provide a brief update on how your investments have performed at the early minutes of every class, if called upon.
- On the report submission date you are expected to hand in a short report (**STRICTLY** no more than 1 page) on your investment strategy and on how your investments have performed. Please include your game username and your name on the report. Please email me the report. Submission is subject to the grading policy for late submission.

## PROBLEM SETS

There will be **FOUR** mandatory problem sets throughout the semester, each of which will be given equal weight (**5 points each**). The problem sets will help you to work through the materials covered in class and will be useful in your preparation for the mid-term and final exam. If you will have to miss a class, please turn in your problem set by leaving it in my mailbox (**Last name: JIA**) in the

main office of the economics department (**Tydings 3110, open until 4:30pm**) or by slipping it under my office door no later than the beginning of class on due date.

## **GRADING POLICY FOR LATE SUBMISSION**

For fairness among your classmates, if you submit your problem set or report late, I will drop 33% of the points if you hand it in on the same day of due date. 50% of the points will be deducted if you hand it in ON the day after its due date. Later than one day submissions will not receive any credit.

## **EXAMS**

There will be **TWO** exams, a midterm and a final. If you fail to take an exam, you will receive a zero score, unless your absence is due to one of the legitimate causes listed in the Undergraduate Catalog and you provide documentation for this as soon as possible. You are responsible for all materials in the relevant chapters of the textbook, and for what was covered in my slides/lectures. If you miss any lectures, please make sure that you copy the notes of one of your colleagues.

## **MEDICAL EXCUSES**

Students or a guardian must email me prior to class to inform me if they will not be in attendance due to illness or injury and thus will miss a class assignment/exam/deadline. In the very next class session that you are in attendance, you must present me with **written documentation** of your illness/injury (a copy of your medical notes is acceptable). If you do not inform me or if you do not present me with timely documentation, 0 points will be given to you for the missed assignment/exam.

## **STUDENTS WITH DISABILITIES**

Students with disabilities are required to get in touch with me within the first three weeks of classes and furnish the required documentary evidence. I will be happy to accommodate your needs.

## **ACADEMIC INTEGRITY**

The University of Maryland, College Park has a nationally recognized Code of Academic Integrity, administered by the Student Honor Council. This Code sets standards for academic integrity at Maryland for all undergraduate and graduate students. As a student you are responsible for upholding these standards for this course. It is very important for you to be aware of the consequences of cheating, fabrication, facilitation, and plagiarism. For more information on the Code of Academic Integrity or the Student Honor Council, please visit <http://www.shc.umd.edu>

## **COURSE EVALUATION**

At the end of the semester, please let me know what you think about this class and what can be improved by taking advantage of the University's on-line course evaluation system. I really appreciate your feedback incorporating your suggestions will greatly help me in updating the course for future generations of students.

## **ADDITIONAL HANDOUTS**

- Lecture Schedule and Reading Assignment