

Instructor:

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Course webpage: <http://econ435.korinek.com>

Lecture: Tuesday and Thursday 2:00pm- 3:15pm in TYD 2110

Office Hours: TA: Tuesday 10:15 – 11:45am and Friday 1:30 – 3:00pm
Professor: Thursday 3:30 – 4:30pm and by appointment

Course Description:

The goal of this course is twofold: (1) to provide an introduction into the workings of modern financial markets and (2) to analyze the role of financial markets for the broader macroeconomy.

The course will discuss the basic role of financial markets, the types of financial assets and how they are traded. We will introduce a number of technical tools for valuing risk, pricing financial assets and creating portfolios. Finally, we will employ these insights to discuss issues of broader relevance for the macro economy, with special emphasis on the slow economic recovery.

Prerequisites:

The formal requirement for the course is having successfully taken ECON326, and the calculus methods you applied in that course will be frequently utilized. ECON435 also uses a number of statistical tools, so ECON321 is highly recommended as another pre-requisite.

I will distribute a math handout in our first class to help you review some of the mathematical concepts and tools that will be used in class. I strongly recommend that you work through it to refresh your math skills. If you have any questions or difficulty, please come to our office hours. I will also test the materials on this handout on a math review problem set and on our quizzes and final exam.

Textbook and Readings:

The main recommended textbook for the course is “Investments” by Zvi Bodie, Alex Kane and Alan J. Marcus, McGraw-Hill/Irwin, 9th edition (2010), ISBN 978-0073530703. This book is an excellent source of how modern financial markets work and explains the basic tools that financial economists use to analyze them. The 6th, 7th or 8th edition of the book is also acceptable (and significantly cheaper).

A second reading is the “Financial Times” (FT), a leading daily business newspaper, to which I strongly recommend that you subscribe. FT offers 15-week student online or print subscriptions, and tablet subscriptions are available as well. You could also read the print version in the library. The FT will be an invaluable tool in preparing your in-class financial news analysis presentation and blog posting.

Composition of Grade:

- 10 % Class participation and investment game
- 16 % Financial news analysis presentation & blog posting
- 24 % Problem sets
- 30 % Quizzes (10 % each)
- 20 % Final exam

There will be no opportunities for extra credit. If at any point during the semester you face circumstances which prevent you from attending lecture, handing in problem sets on time, making a presentation and/or participating in quizzes or exams, please contact me as soon as possible to discuss ways to manage the situation. There is little that can be done after an unsatisfactory grade has been assigned.

Class Preparation and Participation:

Students are expected to be prepared for each lecture by studying the textbook chapters as indicated below. Furthermore, you are expected to follow our regular financial news discussion and analysis in class and online to connect the theoretical concepts that we are studying to what is going on in financial markets day-to-day. Preparing all of these materials will help you to actively and effectively participate in classroom discussions. This means regular class attendance is an expectation. You will be responsible for all the preparatory materials in your problem sets, quizzes and exams.

Financial News Analysis Presentation and Blog:

One of the main goals of our course is to actively follow the news in financial markets. For each class meeting, we will sign up a team of two students to review the most recent financial developments.

During the week before your presentation, make sure to buy and read a financial newspaper (Financial Times or Wall Street Journal) every day and keep track of all important financial developments by following related articles from at least two different online news sources (such as Bloomberg.com, MarketWatch.com, Yahoo! Finance, Google finance etc). You want to be exposed to a variety of opinions.

Your presentation will consist of two parts. First, spend some time to discuss in person how markets performed since our last class meeting and analyze what caused this performance. Secondly, screen a recorded video in which you analyze and discuss two to three specific topics that are closely related to our course. You should do in-depth research on these topics and present a brief summary, your analysis and your comments. You can record your video from the camera of most laptops using e.g. SMRecorder or the trial version of Camtasia. If you have never recorded a video make yourself familiar with how to do this as soon as possible. If you do not have access to a laptop with a camera,

then our TA will be able to help you record the video in her office hours. (In that case, try to schedule your presentation for a Tuesday.)

In addition to the presentation and the video, post an online summary with links (around 300 – 400 words) to our financial news analysis blog at <http://econ435.tumblr.com/>. I urge all class participants to sign up to this blog and read it regularly to be well prepared for problem sets, quizzes and the final exam.

Virtual Investment Game:

In order to gain some practical experience with financial markets, I require that every student participates in a simulated virtual stock exchange game, for which you can register at: <http://www.marketwatch.com/game/umd-econ435-spring-213a0>
Sign up using the first letter of your first name plus your last name. For example, my user ID would be akorinek.

The first session of the game runs from 1/30 to 3/13/2013. You will be given a virtual \$10,000 investment account and be permitted to trade stocks and ETFs. You are expected to buy at least one security by 2/7 and to follow your virtual portfolio closely so that you can provide a brief update on how your investments have performed every class, if called upon. A second session of the game will run from 3/25 to 5/8/2013 and will include more sophisticated trading options. The goal of the investment game is to gain more practical insights into financial markets, but the performance of your investment portfolio will not impact your grade. (Exception: the mid-term winner and the final winner will each obtain 5 bonus points; the runner-ups will obtain 3 bonus points).

We will determine who earned the highest returns in the two games on 3/14 and 5/9/2013. On 3/14 and 5/7 you are expected to hand in a short report (no more than 1 page) on your investment strategy and on how your investments have performed. (Please include your username on the report.) The winners of the two games will present their investment strategies to class.

Problem Sets:

There will be six mandatory problem sets throughout the semester, each of which will be given equal weight. (In addition, I will distribute a math problem set to refresh your math skills that you acquired in ECON326.) The problem sets will help you to work through the materials covered in class and will be useful in your preparation for the quizzes and final exam. Therefore I assign an important weight of the final grade to your performance on problem sets.

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.

For problem sets, the following rules apply: if you will have to miss a class, turn in your problem set by leaving it in my mailbox in the main office of the economics department (Tydings 3110, open until 4:30pm) or by slipping it under my office door (Tydings 4118F) *before the beginning of class*. If you are late, I will drop 33% of the points if you hand it in after class the same day and 50% of the points if you hand it in the day after its due date. Later submissions will not receive any credit.

Quizzes and Final Exam:

There will be three quizzes throughout the semester and one final exam. The material covered by the quizzes will be cumulative, but with special focus on the most recent materials. If you fail to take a quiz or 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 material in the relevant chapters of the textbook (see below), for the topics we covered in the financial news analysis presentations and blog and for what is discussed in my lectures. If you miss lectures, make sure that you copy the notes of one of your colleagues.

Course Evaluations:

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

Learning Assistance:

If you are experiencing difficulties in keeping up with the academic demands of this course, contact the Learning Assistance Service, 2202 Shoemaker Building, 301-314-7693. Their educational counselors can help with time management, reading, math learning skills, note-taking and exam preparation skills. All their services are free to UMD students.

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>

Preliminary Course Outline (details will change over the course of the semester):

Date	Topics	Book	Materials Due
1/24	Introduction	Ch. 1	
1/29	Role of the Financial System	Ch. 1	
1/31	Money Markets	Ch. 2	Math practice problems
2/05	Bond Markets	Ch. 2	
2/07	Equity Markets	Ch. 2	
2/12	Security Trading	Ch. 3	
2/14	<i>Quiz 1</i>	Ch. 3	Problem set 1
2/19	Security Trading		
2/21	Mutual Funds	Ch. 4	
2/26	Risk in Financial Markets	Ch. 5	
2/28	Dealing with Risk	Ch. 6	Problem set 2
3/05	Diversification	Ch. 7	
3/07	CAPM	Ch. 9	
3/12	<i>Quiz 2</i>		Problem set 3
3/14	Efficient Market Hypothesis	Ch. 11	Mid-term report investment game
Spring Break			
3/26	Efficient Market Hypothesis	Ch. 11	
3/28	Bond Prices and Yields	Ch. 14	
4/02	Term Structure	Ch. 15	
4/04	Mortgage Markets	Slides	Problem set 4
4/09	Mortgage Markets	Slides	
4/11	Options	Ch. 20	
4/16	Futures and Swaps	Ch. 22	
4/18	<i>Quiz 3</i>		Problem set 5
4/23	Risk Management	Ch. 23	
4/25	Retirement Savings	Slides	
4/30	Retirement Savings	Slides	
5/02	Financial Crisis and Growth	Slides	Problem set 6
5/07	Too Big to Fail	Slides	Final report investment game
5/09	Final Review		
5/15	<i>Final Exam: 10:30am – 12:30pm</i>		