

**Department of Economics**  
**University of Maryland**

ECON 435-0101

Financial Markets and the Macroeconomy

Spring 2016

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**Instructor:** Hsuan Yu

**Email:** yu@econ.umd.edu

**Course Website:** ELMS

**Lecture:** Tu Th 09:30 am - 10:45 pm Tydings 2110

**Office Hours:** Th 12:00 - 14:00 pm Tydings 4119 (or by appointment).

**Midterm:** Thursday, March 24.

**Final:** TBD

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## Overview & Course Objectives

Financial economics is a broad field and this class is designed to give students exposure to many elements of this subject. We will examine the different types of financial assets, how to calculate and compare their returns, the markets in which they trade, the optimal way to combine them, and the determination of their prices. We will also discuss several fundamental financial concepts, such as the relationship between risk and return, the principal-agent problem in financial markets, and the Efficient Markets Hypothesis. Emphasis will be placed on the real world applications of the material presented in class, as the knowledge obtained will be helpful beyond the course itself. The aim is to provide tools that will help students make more informed financial decisions, in both professional and personal contexts.

**Prerequisites:** Students are required to have taken ECON325 and ECON326 with a minimum grade of C-; and 1 course with a minimum grade of C- from (ECON321, STAT400). ECON321 or STAT400 equivalent is highly recommended as another prerequisite. A number of statistical tools will be used. Calculus methods will be 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.

## Course Materials

### Textbook and Reading:

- The main required textbook: *Investment*. Zvi Bodie, Alex Kane and Alan Marcus. ISBN-10: 0077861671 / ISBN-13: 978-0077861674. Edition: 10th edition (September 9, 2013) Publisher: McGraw-Hill/Irwin. If you have an old edition of this book and would like to continue using it, please reference the right chapters corresponding to each lecture and note the content difference. Otherwise, I recommend you to use the most recent version, the 10th edition.

- The second required 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

- 10% (Group Assignment) Virtual investment game and two one-page investment strategy and result summary report (one mid report and one final report).
- 10% (Group Assignment) Financial news analysis presentation and slides submission. Date of all presentations:
- 20% Problem sets
- 25% Midterm exam
- 35% Final exam

Your overall course grade will be a weighted average of scores of all the categories above. 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 investment strategy report and problem sets on time, making a presentation and/or participating in 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.

## Presentation

- *Presentation Format:* One of the main goals of our class is to actively follow actual events in financial markets. At the beginning of one class each week, we will review and discuss the financial news and developments since the previous class. To this goal, I will assign a team of three students for each class to prepare a short presentation (approx. 10 to 15 min). I would like each group to prepare some presentation slides. All team members or one or two representatives of the group may stand in the front to give the presentation.
- *Topic Selection:* No later than one week before your presentation, make sure to buy and read a financial newspaper every day and keep track of all important financial developments, or keep track of the important financial developments by visiting online news sources (such as Bloomberg.com, MarketWatch.com, Yahoo! Finance, Google Finance etc). Discuss with your group member, pin down the key question that not only interests both of you but also falls in a general topic that roughly fits in our class coverage.
- *Content:* In your financial news presentation, (i) spend some time to discuss and analyze how markets performed since our last class and (ii) analyze and discuss the specific topic that have been chosen, which should be somewhat related to our course. You should do in-depth research, analysis and comments on the topic. Please submit your slides by emailing me after your group presentation.

# Virtual Investment Game

In order to gain some practical experience with financial markets, I require that every student participates in a simulated stock market game in groups assigned randomly. (I will provide more information in the first few weeks of the semester).

## 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: YU) in the main office of the economics department (Tydings 3110, open until 4:30 pm) or by slipping it under my office door no later than the beginning of class on due date. For fairness, if you turn in your problem set late, I will drop 40% of the points if you hand it in 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.

## Other Items

**Academic Honesty:** As a University of Maryland student you have to abide by the academic honesty policy and the Code of Academic Integrity. Lack of knowledge of the academic honesty policy is not a reasonable explanation for a violation. Please visit [www.studenthonorcouncil.umd.edu](http://www.studenthonorcouncil.umd.edu).

**Make-up Exams:** Make-up exams will be granted only to those students whose excuse complies with University policy. The four valid excuses according to University policy are medical conditions, religious observances, participation in University events at the request of University authorities, and compelling circumstances beyond your control. If you believe you need a make-up, please inform me as far in advance as possible by email. University policy requires that you provide appropriate documentation before you can be considered eligible for a make-up exam. If you miss an exam and cannot document a valid excuse, your grade will be recorded as a zero.

**Disabilities:** Students who are registered with the University's Disability Support Services

(DSS) office and who provide me with an updated DSS form by specific date you choose will be accommodated. Students who need accommodations for exams should contact me as soon as possible.

## Course Outline

This outline is preliminary course and details might change over the course of this semester.

Date	Topics	Reference	Material Due
01/28	Introduction	Ch 1.	
02/02	Role of the Financial System	Ch 1.	
02/04	Money Markets	Ch 2.	
02/09	Bond Markets	Ch 2.	
02/11	Equity Markets	Ch 2.	
02/16	Security Trading	Ch 3.	
02/18	Mutual Funds	Ch 4.	
02/23	Math Review	Handout	
02/25	Risk in Financial Markets	Ch 5.	
03/01	Dealing with Risk	Ch 6.	Problem Set 1
03/03	Diversification/Portfolio Theory	Ch 7.	
03/08	Diversification/Portfolio Theory	Ch 7.	
03/10	CAPM	Ch 9.	
03/15	<b>Spring break</b>		
03/17	<b>Spring break</b>		
03/22	Index Models	Ch 8.	Problem Set 2
03/24	<b>Midterm Exam</b>		
03/29	Multifactor Models	Ch 10.	
03/31	Efficient Market Hypothesis	Ch 11.	
04/05	Bond Prices and Yields	Ch 14.	Investment Mid-Report
04/07	Term Structure	Ch 15.	
04/12	Managing Bond Portfolio	Ch 16.	
04/14	Options	Ch 20.	
04/19	Options	Ch 20.	Problem Set 3
04/21	Futures and Swaps	Ch 22.	
04/26	Risk Management	Ch 23.	
04/28	Risk Management	Ch 23.	
05/03	Option Valuation	Ch 21.	
05/05	Mortgage Markets	Slides	
05/10	Review Session		Problem Set 4, Investment Final Report
TBD	<b>Final Exam</b>		