

Economics 134

## Financial Economics

### Instructor

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Office Hours: Monday, 9:00-11:00am

### Teaching Assistant

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### Class Times

Lectures:

Monday, Wednesday, Friday, 2:10-3:00pm, Wellman 230

Discussion Sections:

A01 Monday 4:10-5:00pm Wellman 229

A02 Monday 5:10-6:00pm Wellman 229

### Course Objective

ECN 134 studies the role, valuation and optimal use of financial instruments which permit redistribution of income over time. The first part of the course will familiarize you with the various aspects of financial markets. The second part of the course will deal with asset pricing under certainty. The final part of the course will look at the valuation of risky assets in the context of the Capital Asset Pricing Model.

### Organization of the class

*Textbook:* *Investments*, 9<sup>th</sup> Edition, by Z. Bodie, A. Kane, and A. Marcus, Irwin/McGraw-Hill. You may also use the 7<sup>th</sup> or 8<sup>th</sup> Editions, but will be responsible for finding corresponding page numbers and problems on your own.

*Web Page:* All information for this class including homework assignments and class notes can be accessed through *SmartSite*.

*Problem Sets:* There will be four problem sets due during the class. These will be due *in class* on the day designated. Answer keys will be provided so *no late problem sets will*

***be accepted.*** If you are unable to attend class that day, you either need to make arrangements to turn it in early or have a classmate hand it in for you.

You may collaborate with others on the concepts in the problem sets, however, each student must individually write up their own answers. In addition, you must write the names of all the people you worked with on top of your assignment. Problem sets that are simply duplicates of each other will receive a score of 0.

The assignment will be due on Monday:

April 11<sup>th</sup>

April 25<sup>th</sup>

May 9<sup>th</sup>

May 23<sup>d</sup>

Each assignment will be posted 1 week before it is due.

*Exams:* There will be 2 midterms and a final exam for this course. The dates are:

Midterm 1: Wednesday, April 20<sup>th</sup>, in class

Midterm 2: Friday, May 13<sup>th</sup>, in class

Final Exam: Thursday, June 9<sup>th</sup>, 10:30-12:30pm, same classroom

There will be no alternate dates provided for the exams. Exams are to be taken as scheduled except in the case of a *documented* illness or family emergency. Students are required to inform me before the exam date if this is the case, except when this is impossible. If you have an **excused** absence your other exam scores will be re-weighted accordingly. Unexcused absences will result in an exam grade of zero. The final exam must be taken in order to pass the class, so please make any summer plans for *after* the final exam date.

*Exam Re-grade Policy:* If an administrative error has been made in calculating your grade (such as an arithmetic error in adding up your score) no re-grade needs to be submitted. Merely bring the error to my attention so I can correct it. If you desire an exam re-grade, please do the following:

- Submit a written request for the re-grade within one week of the exam hand back date.
- In your written request, enumerate questions deserving special attention and an explanation of why the questions require more attention.
- Attach the original version of your exam to this written statement.

Note, that your whole exam may be re-graded upon submission of a re-grade.

*Grading:* Your grade will be determined as a combination of your exam scores and your homework scores. The breakdown is as follows:

Homework	%10
Exam 1	%25
Exam 2	%25
Final Exam	%40

*Stock Market Game:* In this course we will all play a stock market game with fake money. Each person will receive \$200,000 to invest in the stock market. The top 5 students will receive an extra 5 percentage points on the final exam so it is in your best interest to try to make as much money as possible. Hopefully, as the course progresses you will be able to make better investment decisions with the material learned. Please see the handout on *SmartSite* for more details.

## Class Policies

*Academic Honesty:* I believe that everyone should pass this course on their own merits. It is unfair to yourself, your classmates, and your future employers if you cheat. Any instances of cheating (for information on what constitutes cheating see <http://sja.ucdavis.edu/>) will be submitted to Student Judicial Affairs and the student(s) will receive a 0 for the assignment in question.

*Grade Distribution:* Final grades will be determined by a curve. The distribution of the curve will follow the economics department guidelines for upper division courses. These guidelines list the target median grade as 2.7 (B-).

*E-Mail:* It is likely that I will e-mail you this quarter with important information about the course. It is your responsibility to check your UCD registered e-mail account. Note that grades may not be distributed by email.

## Course Outline

The following is an outline of the topics covered in this course. As the course progresses topics and other details may be added or removed from the outline.

### 1. Introduction to Markets

Overview of financial markets, stocks, bonds, interest rates, etc.  
BKM Chapters 1-4

### 2. Present and Future Value

Using formulas to calculate value of returns across time  
Supplemental Notes

### **3. Bonds and Bond Pricing**

Valuation and pricing of fixed income securities.  
BKM Chapter 14

### **4. Stocks and Stock Pricing**

Valuation and pricing of equity.  
BKM Chapter 18

### **5. Portfolios**

Combining multiple assets into one portfolio  
BKM Chapter 5

### **6. Risk and Diversification**

Evaluating portfolios in a risky environment. Variance and Standard Deviation of portfolios. Optimal portfolios  
BKM Chapters 6-8

### **7. 2008 Financial Crisis**

A quick overview of the 2008 Financial Crisis.  
BKM Chapter 1, supplemental materials.

### **8. CAPM**

Intro and evaluation of the Capital Asset Pricing Model.  
BKM Chapter 9

If we have time we will also cover the following topics

### **9. Efficient Market Hypothesis**

### **10. Put/Call Options, Futures**