Financial Economics
220:393:B6
Prof. Paczkowski

Summer, 2013
May 12, 2013

My office hours are:
Tuesday and Thursday 4:00 - 5:30 PM
and by appointment

Office Hours Location:
Classroom
732-932-7363

The best place to find me is before class in the classroom. I can also be reached by email at

paczkows@economics.rutgers.edu

Please feel free to see me with any questions. Do not wait until the end of the semester!

You can also reach me via the Economics Department’s secretary in New Jersey Hall. You can leave a message for my mail box, but this is the least effective way to reach me.
1 Course Objectives

The financial system is sometimes viewed solely as a vehicle for making or losing money with no other purpose, while at other times it is viewed as a vital part of our economic system and an important component of economic growth. No matter the view, our financial system, with its institutions, structures, and instruments, is a dominant factor in our monetary economy. From an economist’s perspective, we are concerned with how the system aids resource allocation and economic growth. This course will focus on:

1. the functions and structure of the financial system;
2. a comparison of financial systems;
3. the elementary mathematics of finance;
4. reading a financial statement;
5. the role and function of financial instruments;
6. the elementary valuation of financial instruments, primarily stocks, bonds, futures, and options;
7. the role of risk and how markets manage and control risk;
8. issues in corporate finance and capital budgeting;
9. issues in international finance.

1.1 At the End

At the end of the semester, you will be expected to...

1. describe the main functions of the financial system;
2. solve present value problems;
3. derive key financial formulas;
4. explain how the stock and bond markets operate;
5. explain the major features of stocks and bonds;
6. articulate the major trends and patterns in the financial markets;
7. explain how the futures and options markets operate.
2 What the Course is and is Not

This course is designed to be an overview and introduction to financial economic analysis covering markets, institutions, structures, and instruments. This is not a theory course per se. Nor is it a course in accounting, personal investment advice, capital markets, or money and banking.

3 Relation to Other Economics Courses

Because of the general nature of the topic (i.e., financial markets), there is some overlap with other economics courses. In particular, Money & Banking, Financial Economics, Macroeconomic Theory and Microeconomic Theory cover similar or related material. This course differs by being more intense, focused, detailed, and technical.

4 Upper Level Economics Elective Course

This is an upper level Economics elective course.

5 Prerequisites

The prerequisites are listed in the course description as...

1. 220:320
2. or 373:422
3. 220:322

6 Math/Stat Requirement

Simple mathematics including algebra will be used where appropriate with explanations given in class when a difficult concept is presented. After that, it is assumed that you understand the concept if questions are not asked. It is your responsibility to ask questions. Most of the time, however, just numerical calculations will be done. You are expected to be able to handle all mathematics – nothing is beyond your level! You will be asked to derive something on the exams. “Derive” means to show step-by-step in a clear and organized fashion where a formula comes from. These derivations are not beyond your ability.

7 Calculators

Since numerical calculations will be done in class, you will need a calculator with the usual functions. You can use a calculator for the exams, however, you will not get any credit (i.e., you will get a zero) for merely writing down an answer from the calculator. For any credit
at all, you must show that you know how to do the problem, not that you know how to use a calculator. You will not be allowed to use a cellphone, smartphone, iPad, tablet, or any PDA that has a calculator. They do not have the functionality to do the required work.

8 Textbook

The textbook is

**Esssentials of Corporate Finance**, 8th Edition
Ross, Westerfield, and Jordan (McGraw-Hill)

There is no workbook.

Handouts will be provided as necessary to supplement lectures but not to replace your responsibility to attend class and take notes. Please be aware that there are notation differences between my lectures and the book. You are expected to identify these and make the necessary translations. This is your responsibility.

9 Lecture Notes Online

I am against putting lecture notes online. However, as a courtesy, notes will be made available on Sakai. The online notes are not meant to replace your responsibility to attend class and take notes.

10 Reading Assignments

You will be told the textbook reading assignments as we progress through the lectures. For the most part, we will cover as much of the textbook as possible. You are expected to read these assignments and be prepared for class discussions.

In addition, reading the *Wall Street Journal* regularly (daily!) is highly recommended to relate course material to actual real world events. You are expected to read widely and be prepared for class discussions. You are responsible for both the readings and the lectures.

11 Current Markets Discussions

We will try to spend the first 10 - 15 minutes of each class discussing the major market news and interpreting events within the context of the theory learned in class. Your readings from the *Wall Street Journal* will provide you with the background. The purpose for these discussions is two-fold:

1. to relate the theory to reality or to identify those things that we do not understand;
2. to encourage you to keep abreast of economic developments.

Please be prepared.
12 Exams

There will be three (3) exams (two (2) hourly exams and a final).

12.1 Schedule

The final exam has a definite date and time. The hourly exams dates are APPROXIMATE.

12.1.1 Final Exam Schedule

The final is already scheduled by the University. Please refer to the following table for your section:

<table>
<thead>
<tr>
<th>Section</th>
<th>Date</th>
<th>Time</th>
</tr>
</thead>
<tbody>
<tr>
<td>B6</td>
<td>July 5</td>
<td>6 - 10:00 PM</td>
</tr>
</tbody>
</table>

Do not plan to leave the University before the final exam period is officially over. If school is open, then it is your responsibility to be here.

12.1.2 Hourly Exams Schedule

The two hourly exams will be APPROXIMATELY . . .

<table>
<thead>
<tr>
<th>Exam</th>
<th>Approximate Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>June 6</td>
</tr>
<tr>
<td>2</td>
<td>June 20</td>
</tr>
</tbody>
</table>

Please, do not plan to be away or miss class for any reason based on these APPROXIMATE dates since the actual dates depend heavily on how fast we cover material. There will be no make-ups for a missed midterm exam. NO EXCEPTIONS. Please note the word APPROXIMATE.

12.2 Comprehensiveness

The three (3) exams are comprehensive and will focus on grand themes and issues. They are meant to synthesize the material. The two (2) hourly exams explicitly cover only the material in the reading assignments and covered in class since the last exam. In this sense, these two (2) exams are not cumulative. They are cumulative, however, in that you are expected to know and understand previously covered material and be able to handle new material. The material builds.

12.3 Cumulative Final

The final exam is cumulative.
12.4 Exam Content

All three (3) exams will consist of...

1. true/false and multiple choice questions on...
   - concepts
   - definitions
   - formulas

2. derivations

3. calculations (you must bring your own calculator)

4. short explanations/interpretations.

12.5 Exam Grading

Your exam answers are graded on completeness (just having a key word does not suffice), relevancy to the question I asked (many students do not answer my question), and neatness (points are deducted if I cannot read an answer). Short ESSAY answers are required. Essays consist of whole sentences and paragraphs correctly worded and written. Anything else is a zero. In particular, essays consisting of bullet point lists will not be accepted. Points are deducted if the answers are not in acceptable essay form. In short, it’s not only what you say, but also how you say it that counts.

12.6 Makeup Exams

There are no makeups for missed exams due to tardiness or being absent. No exceptions – No excuses. A make-up exam is allowed only after prior permission is granted to miss that exam or there is a note from the University and appropriate documentation (e.g., medical, court order). It is your responsibility to notify the University of a medical or personal problem (e.g., death in the family) resulting in a missed exam. Excuses are not accepted; only proper documentation will be accepted. A make-up exam is not necessarily the same as the regular exam. Obviously, a make-up is not given for the final.

13 Grades

All assignments, exams, and the labs have points.

13.1 Points

The two (2) hourly exams typically have 70 points each while the final has 100 points (it’s longer because it’s cumulative).
13.2 Weights
Grades are determined on a points-earned basis with the following importance weights...

<table>
<thead>
<tr>
<th>Exam</th>
<th>Weight</th>
</tr>
</thead>
<tbody>
<tr>
<td>Exam 1</td>
<td>30%</td>
</tr>
<tr>
<td>Exam 2</td>
<td>30%</td>
</tr>
<tr>
<td>Final</td>
<td>40%</td>
</tr>
</tbody>
</table>

13.3 Curves
A straight curve – no other curve – is used...

<table>
<thead>
<tr>
<th>Percentage Range</th>
<th>Grade</th>
</tr>
</thead>
<tbody>
<tr>
<td>90% to 100%</td>
<td>A</td>
</tr>
<tr>
<td>88% to less than 90%</td>
<td>B+</td>
</tr>
<tr>
<td>80% to less than 88%</td>
<td>B</td>
</tr>
<tr>
<td>78% to less than 80%</td>
<td>C+</td>
</tr>
<tr>
<td>70% to less than 78%</td>
<td>C</td>
</tr>
<tr>
<td>60% to less than 70%</td>
<td>D</td>
</tr>
<tr>
<td>Less than 60%</td>
<td>F</td>
</tr>
</tbody>
</table>

14 Appeals
Students occasionally feel that a grade is too low. In such a case, an appeal consisting of one (1) double spaced, typed page plus a copy of the exam or paper with my comments on it may be submitted at any time up to and including the final exam, but not beyond.

14.1 Appeal Content
The appeal should contain an argument as to why a particular grade should be changed. Not all appeals are accepted. An appeal that says, for instance, ”But I studied hard” or “I worked all semester and just got a C - I deserve better” or “You graded me unfairly” is not acceptable.

14.2 Appeal Reviews
Appeals are reviewed only at the end of the semester and only when it is believed that a grade may be changed. Do not ask if I reviewed an appeal at any point in the semester - the answer is “No”. Appeals are only reviewed at the end of the semester in borderline cases.

14.3 Submitting Appeals
Appeals can be submitted anytime up to and including the time you submit your final exam. You cannot submit any more appeals once you submit the final exam.
15 Final Course Grades

Final course grades will be available in the usual way. I am not allowed to email any grade information.

16 Attendance Policy

Attendance is taken at the beginning of each class.

Students are expected to attend all classes. If you expect to miss one or two classes because of illness or a family emergency, please use the University absence reporting website [https://sims.rutgers.edu/ssra/](https://sims.rutgers.edu/ssra/) to indicate the date and reason for your absence. An email is automatically sent to me.

You must let me know at least one week ahead of time regarding a religious holiday conflict with an exam or an assignment.

16.1 General Rutgers Policies

University religious holiday policy is at...

[http://scheduling.rutgers.edu/religious.shtml](http://scheduling.rutgers.edu/religious.shtml)

An interfaith calendar can be found at...

[http://www.interfaithcalendar.org/index.htm](http://www.interfaithcalendar.org/index.htm)

University attendance policy is at...


17 Late Submissions

There is a very strict policy regarding late submissions.

17.1 Late Papers

Late papers will not be accepted under any circumstance; they receive an automatic zero.

17.2 Where to Submit Papers

All papers must be handed to me personally in class.
17.2.1 Leaving Papers

Papers placed in my mailbox, left on my desk, or shoved under my office door will not be accepted under any circumstance; they are automatic zeros.

17.2.2 Emailing Papers

Emailed papers will NOT be accepted under any circumstance; they are automatic zeros.

17.3 Exceptions

There are none.

18 Laptops and Recording Devices in Class

As a general policy, you will not be allowed to use a laptop or tablet computer in class or record the class lectures in any manner, shape or form. If you must have the lecture notes with you, please print them and bring them to class.

Please note: Laptops, tablet computers and recording devices are not allowed in class. No exceptions – No excuses.

19 University Code of Student Conduct Summary

A university in a free society must be devoted to the pursuit of truth and knowledge through reason and open communication among its members. Its rules should be conceived for the purpose of furthering and protecting the rights of all members of the university community in achieving these ends.

All members of the Rutgers University community are expected to behave in an ethical and moral fashion, respecting the human dignity of all members of the community and resisting behavior that may cause danger or harm to others through violence, theft, or bigotry. All members of the Rutgers University community are expected to adhere to the civil and criminal laws of the local community, state, and nation, and to regulations promulgated by the university. All members of the Rutgers University community are expected to observe established standards of scholarship and academic freedom by respecting the intellectual property of others and by honoring the right of all students to pursue their education in an environment free from harassment and intimidation.

19.1 Academic Integrity Policy Links

Here’s the link for the academic integrity policy…

There are two classes of violations: separable and non-separable. Separable offenses are major offenses including cheating on an hourly or final exam. They are "separable" because a student risks suspension. Non-separable are minor offenses like cheating on a homework. Here is a link to the Office of Student Conduct website for more information:

http://studentconduct.rutgers.edu/academic-integrity

20 Departmental Learning Goals

The Economics Department has established Learning Goals for its undergraduate majors. These Goals are listed on the following page. Please pay especial attention to the Economic Numeracy goal.
Learning Goals for Economics Majors

**Economic Literacy** Students who complete the major in economics should understand and be able to articulate, both orally and in writing, the core economic principles, concepts and theories that form the foundation for modern economic analysis and economic research.

**Economic Numeracy** Students who complete the economics major should be familiar with the tools, techniques and methods of empirical economics. They should be able to analyze data using computer applications and should be familiar with regression methods and other statistical techniques. They should be able to read and assess general interest articles on economic topics. In addition, they should be able to understand and evaluate key findings in published economic research from a wide range of sources including academic economists, public policy think tanks, and government agencies.

**Economic Citizenship** Upon completion of the major students should be able to apply their understanding of core concepts and quantitative tools to analyze and research real world problems and evaluate alternative economic policy proposals on microeconomic and macroeconomic issues.

**Economic Scholarship** Qualified majors should have an opportunity through such avenues as advanced coursework, faculty interactions, national and local competitions and honors courses and programs to utilize up-to-date methodological tools and become fully engaged in economic research and issues on the frontiers of economics.