

ECON 425: Financial Economics

Summer Session I 2018

Course/Section Number: ECON 425/2700

Department: Economics

Class Meeting Times/Days: M,T,W,R,F 11:30AM-1:00PM

Classroom: Gardner Hall Rm 307

Prerequisites: ECON 400, 410 and 420; and a grade of C or better in ECON 400 and 410 is required.

Instructor: Anessa Custovic

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Office Hours: TBD

Office: Phillips Annex

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1. Course Description

How does a risk averse individual allocate their funds? Students begin by defining and measuring risk, making connection to their microeconomics training. They then develop and use asset pricing models to explore the interplay between risk and return. Finally, students use these tools to develop a mean-variance optimal portfolio allocation. Students are introduced to basic quantitative tools and participate in myriad practical applications.

2. Course Goals and Key Learning Objectives

By the end of the course students should i) be able to use the concept of present value to price streams of income and ii) be able to analyze the impact of monetary policy changes upon financial markets and the economy in general.

3. Course Resources and Requirements

Communication: Any assignments, announcements, grades, and readings will be posted on Sakai. Sakai will be the primary method of communication.

Recommended Texts:

- *Investments* by Bodie, Kane and Marcus; McGraw Hill Publishing
- *Modern Investment Theory* by Haugen; Prentice Hall
- *The Economics of Money, Banking, and Financial Markets* by Mishkin; Pearson Publishing

Recommended Periodicals: Keeping up with financial and macro news is essential for this course. Class discussions and assignments will be heavily based on recent financial and macro news. The Wall Street Journal and/or the Economist are highly recommended.

Software: There is no required software purchase for this course. However, most assignments will require the use of a program that stores and manipulates data. Excel is most commonly used in this course. Other software packages such as SAS, Matlab, Stata, etc. are also acceptable.

Macro-Strategy Portfolio Exercise: We are a “top-down” shop, meaning that we look to the macro-economy and policy environment to inform our trading decisions. You are the newest member of our fund family. Along with a few of your classmates, you will form a portfolio management team. The size of each team will depend on the size of the class. Since our focus is “top-down”, the investable universe for each team is a sampling of macro-based ETF’s. I will make the list available to students during class. Each team’s mandate is to outperform the S&P500. Each team is seeded with \$1,000,000 at the opening bell TBD EST, and all positions must be cashed out by the close of trading TBD. All other information regarding trading platform, rules, and regulations will be made available in class and posted on Sakai. Report to CIO: Each team must submit a weekly report to me (the CIO of AMS), which contains four key elements: i) Week in Review: An overview of the markets, economy, and policy environment in the previous week. ii) Performance Summary and Holdings: Detail the performance of your portfolio during the previous week and since inception. Include simple metrics such as mean return and standard deviation relative to your benchmark. Also include a detailed accounting of the weights for each of your holdings. iii) Summary of Activity: justify each of your (non)trading decisions from a macro-perspective. Note: the decision to hold an asset requires as much justification as does a buy or sell action. iv) Outlook: Describe how you plan to position the portfolio for the coming week. [I expect weekly reports to be 5-10 pages in length]. Each week a group will present their report(s) to the class.

4. Course Grades

Grading	% of Course Grade	Date	Details & Policy
Final Exam	20%	Need to double check	Comprehensive exam. Missing the Final Exam without a valid excuse from the Dean will result in a zero exam score.
Midterm	20%	TBD	Missing the Midterm without an “excused” absence results in a zero score for this Test. If you miss the Midterm with an “excused” absence, the Final Exam will account for 40% of the course grade.

Homework	35%	TBD	There will be 3 assignments throughout the semester. No late assignments will be accepted. No “make-ups” will be given. If you miss an assignment due to an “excused” absence, your Homework grade will be reweighted among the remaining homework assignments
Report to the CIO	15%	As per course calendar	A weekly summary of market, macro, and policy activity. Discuss how these events impacted your portfolio, and how you will position your portfolio in the coming week. Submitted electronically via email.
VC Roadshow	10%	TBD	Your team’s goal is to acquire VC funding. You must prepare a thorough accounting of your team’s activity during the semester, present it to the class and turn in a full written report. Submitted electronically via email.

6. Course Policies

- All team based exercises, including extra credit, are subject to a peer review process.
- The University Honor Code is in effect; this implies that all work submitted is your own. If group work is permitted on an assignment you are expected to submit your own version of the work, not the same one as your group members.
- Non-academic use of personal electronic devices is prohibited.
- Students associated with Disability Services must contact me one week prior to each Exam.
- For an excused absence due to illness or participation in University sanctioned activities students must provide documentation from coach or doctor. You are expected to fill out the “Excused Absence” form found on the Sakai site and turn it into me as soon as possible.
- The professor reserves the right to make changes to the syllabus, including project due dates and test dates. These changes will be announced as early as possible.

7. Tentative Course Schedule

- Week 1: Intro to Financial Markets & Trading Platform & Asset Specific Performance
 - What are financial markets? How are trades placed?
 - Calculating returns
- Week 2: Performance Measurement and Understanding the Risk/Return Tradeoff & Portfolio Optimization
 - What are best practices for computing and describing returns? What is risk and how to measure it? How do investors allocate in the face of risk?

- Markowitz Portfolio Optimization
- Week 3: Asset Allocation and Risk Free Asset Pricing
 - Why diversify? How to construct Markowitz-style optimal portfolio? What is the price of an asset when there is no risk?
- Week 4: Asset Market Equilibrium
 - How do the CAPM and APT models work?
- Week 5: Asset Pricing
 - How do investors price various assets such as: equities, fixed income, and foreign exchange?
- Week 6: Macro and Markets
 - What is the interaction between the financial markets and the macro-economy?