



ECON425: Financial Economics

Economics Department, UNC at Chapel Hill

Summer 2020

Instructor Information:

Prof. Aguilar || maguilar@email.unc.edu || mikeaguilar.web.unc.edu

Office Hours: T/R 11:30am-12:30pm || <https://unc.zoom.us/my/mikeaguilar> (ID: 494-763-4438)

Class Schedule and Delivery:

M,T,W,R,F 8:00AM-9:30AM via Zoom

This course is delivered in an ONLINE ONLY format. The online delivery is accomplished via a mix of Synchronous and Asynchronous sessions. During days designated as Synchronous, students have the option of dialing into a Zoom room. Attendance is not taken, but is highly encouraged. Each of these synchronous sessions will begin with a quick review of recent course material. Then, students will have the opportunity to work on practice questions designed to reinforce the key concepts and deepen understanding. Students will be randomly assigned into small “breakout rooms” with their peers to facilitate collaboration. The instructional team will be available to provide guidance. When ready, students submit their answers via Poll Everywhere and return to the main room for a debriefing with the Instructor. Recordings of these sessions will be made available. During days designated as Asynchronous, students are responsible for completing the assigned readings, videos, and supplemental exercises.

Communication:

Assignments, announcements, grades, readings, and other information will be posted on sakai. The sakai site will be the primary method of communication for this course, so please check it frequently.

Prerequisites:

Econ 420 (Intermediate Theory: Money, Income, and Employment)

Econ 410 (Intermediate Theory: Price and Distribution) with a grade of C or better

Econ 400 (Economic Statistics) with a grade of C or better

Course Description:

A central theme underlies the course: How does a risk averse individual allocate their funds? Students begin by defining and measuring risk, making connections to their microeconomics training. They then develop and use asset pricing models to explore the interplay between risk and return. These pricing tools are then applied to several assets, including equities, fixed income, and foreign exchange. Finally, students use these tools to develop a mean-variance optimal portfolio allocation. Along the way, students are introduced to basic quantitative tools, and participate in myriad practical applications.

Course Materials:

Recommended Texts:

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

Recommended Periodicals: Keeping abreast of the financial and macro news is essential for this course. Although not officially required, reading the *The Wall Street Journal* and/or the *Economist* is highly recommended.

Software: You are not required to purchase additional software for this course. However, many assignments require access to a program that will store and manipulate data. Excel is the candidate for such tasks.

Code of Conduct: The University Honor Code is in effect. In particular, this implies that all work submitted is your own. Moreover, I expect professional behavior at all times. For example, the non-academic use of personal electronic devices is prohibited.

Tentative Course Outline:

- Week 1 *Introduction to Financial Markets & Trading Platform*
What are the financial markets? How are trades placed inside of our platform?
- Week 1 *Performance Measurement*
What are the best practices for computing and describing returns?
- Week 2 *Understanding the Risk / Return Tradeoff*
What is risk? How measure? How do investors allocate in the face of risk
- Week 3 *Asset Allocation*
Why is diversification useful? How do we construct Markowitz-style optimal portfolios?
- Weeks 4 *Risk Free Asset Pricing*
What is the price of an asset in the simple case of no risk?
- Week 4 *Asset Market Equilibrium*
How do the CAPM and APT models permit investors to price assets in the face of risk?
- Weeks 5 *Asset Pricing*
How do investors price Equities, Fixed Income, and Foreign Exchange?
- Week 5 *Macro & Markets*
What is the interaction between the financial markets and the macroeconomy?

Assessment	% of Course Grade	Date (Times are EDT)	Details & Policy
Final Exam	(20%)	8:00AM 28July2020 - 8:00AM 29July2020	Comprehensive exam. Missing the Final Exam without a valid excuse from the Dean will result in a zero exam score. Exam will be completed via Sakai. Students will have three contiguous hours to complete the exam.
Midterm Exam	(20%)	9:15AM 10July2020 - 9:15AM 11July2020	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. Exam will be completed via Sakai. Students will have 1.5 contiguous hours to complete the exam.
Homework	(35%)	Approximately weekly	There will be several homeworks 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.
Macro-Strategy Portfolio		Semester-long, group portfolio management exercise.	
Report to CIO	(15%)	Approximately weekly	A 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 Roadshows	(10%)	TBD	Each team will have two opportunities to garner venture capital (VC) funding. A topic for each presentation will be provided. Scoring is based upon the team’s preparation and response to questions.

All team based exercises are subject to a peer review process.

Students associated with Disability Services must contact me one week prior to each assignment.

Letter grades are computed from the total points earned during the semester and assigned based on the scale nearby. There is no maximum number of A's nor B's awarded. However, in previous courses 15% – 20% of my students have earned in the A range, 30% – 50% have earned in the B range, and 20% – 30% have earned in the C range. Although the grade distribution may change this semester, the past scores should give you a sense of my grading standards.

A	$x \geq 95\%$
A-	$90 \leq x < 95$
B+	$85 \leq x < 90$
B	$80 \leq x < 85$
B-	$75 \leq x < 80$
C+	$70 \leq x < 75$
C	$65 \leq x < 70$
C-	$60 \leq x < 65$
D+	$50 \leq x < 60$
D	$40 \leq x < 50$
F	$x < 40$

Counseling and Psychological Services: CAPS is strongly committed to addressing the mental health needs of a diverse student body through timely access to consultation and connection to clinically appropriate services, whether for short or long-term needs. Go to their website: <https://caps.unc.edu> or visit their facilities on the third floor of the Campus Health Services building for a walk-in evaluation to learn more.

Accessibility Resources & Services: UNC-Chapel Hill facilitates the implementation of reasonable accommodations for students with learning disabilities, physical disabilities, mental health struggles, chronic medical conditions, temporary disability, or pregnancy complications, all of which can impair student success. See the ARS website for contact and registration information: <https://ars.unc.edu/about-ars/contact-us>

Macro-Strategy Portfolio Exercise:

Welcome to Aguilar Macro-Strategy (AMS), a global macro hedge fund located here in Chapel Hill, NC. 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. Each team roughly will consist of 8-15 students.

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 \$10,000,000 at the opening bell TBD, 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.

VC Roadshows: You are seeking to acquire funding from venture capital investors. Each team must give a roughly 20 minute presentation addressing the assigned topic. The exercise is about your team’s ability to manage money, to explain the what is happening in the economy and financial markets, address the investor’s questions, and to justify why your team is deserving of VC funding.

The scores for the Macro-Strategy Portfolio Exercise will be subjected to a peer review process, wherein each student has the opportunity to evaluate their team members’ contributions during the semester. The professor will take these evaluations into consideration when compiling grades for the associated assignments.