Economics 350: Financial Markets in the US Economy  
(MW: 3:25-4:40, Tate Center 131)

Office: TBD         Hours: TBD or by appointment.  
Phone: 413-230-7663  
E-mail: grwoglom


Grading:

There will be 10 quizzes, 7 problem sets, two midterm exams, and a final. In your final average, all of the quizzes will count 5 percent, all of the problem sets 15 percent, the midterm exams 50 percent, and the final exam 30 percent. No make-up exams will be given. Students with a valid excuse for missing an exam (e.g., illness, death in the family) will have their averages based on the other graded assignments. You must notify me in advance if you need to be excused from an exam.

Quizzes will begin promptly at the start of class and last for no more than 5 minutes. (e.g., Next Wednesday there will be a five-minute quiz on Chs. 1-3 and the three additional readings). The lowest two quiz scores will be dropped, and the only excuse for missing a quiz is a religious observance. Late problem sets will be penalized 25 percent per day late, and no problem sets will be accepted after the class following the date they were due.

All course materials, except for the text are available in the Economics 350 course page in Oaks. Any question about the course, except for a personal question should be posted on the Question forum on the course page. Please do not email me non-personal questions about the course.

Attendance policy: Class attendance is entirely optional. Your grade will be based solely on your graded assignments. Regular attendance, however, is strongly recommended. There is a significant amount of material that is not in the textbook, but will be covered in class and in the other readings. Classes will start promptly at 3:25, and end promptly at 4:40. You should plan on arriving at class before 3:25. It is very distracting to me to have students wandering in to class 10, 15, or even more minutes late. Also, please arrange to visit the bathroom before class. Again, it is disruptive to me to have students coming in and out of the room during class. Please turn off cell phones before class.

All readings listed on this syllabus are required. (There are some optional materials listed on the Moodle site). Finally, we will use the Excel spread sheet program for a number of the problem sets. If you are unfamiliar with Excel, you may find it helpful to consult “Accelerated Excel” (prepared by the AC Physics Department with an Addendum from me), sections 1-10 and 15, which you can find in Course Documents. My addendum explains how to use the “Solver” tool, which is a super powerful tool for economics and finance students to have in their toolbox.
**College of Charleston Honor Code and Academic Integrity:**

Lying, cheating, attempted cheating, and plagiarism are violations of our Honor Code that, when identified, are investigated. Each incident will be examined to determine the degree of deception involved.

Incidents where the instructor determines the student’s actions are related more to a misunderstanding will handled by the instructor. A written intervention designed to help prevent the student from repeating the error will be given to the student. The intervention, submitted by form and signed both by the instructor and the student, will be forwarded to the Dean of Students and placed in the student’s file.

Cases of suspected academic dishonesty will be reported directly by the instructor and/or others having knowledge of the incident to the Dean of Students. A student found responsible by the Honor Board for academic dishonesty will receive a XF in the course, indicating failure of the course due to academic dishonesty. This grade will appear on the student’s transcript for two years after which the student may petition for the X to be expunged. The student may also be placed on disciplinary probation, suspended (temporary removal) or expelled (permanent removal) from the College by the Honor Board.

Students should be aware that unauthorized collaboration—working together without permission—is a form of cheating. Unless the instructor specifies that students can work together on an assignment, quiz and/or test, no collaboration during the completion of the assignment is permitted. The one for of collaboration that is authorized is on problems sets. You are allowed (encouraged) to work together on problem sets, but you should write up the answers on your own. The problem set you submit should be based on your work. Substantially identical problem sets cannot reflect the work of two students.

Other forms of cheating include possessing or using an unauthorized study aid (which could include accessing information via a cell phone or computer), copying from others’ exams, fabricating data, and giving unauthorized assistance.

Students can find the complete Honor Code and all related processes in the Student Handbook at [http://studentaffairs.cofc.edu/honor-system/studenthandbook/index.php](http://studentaffairs.cofc.edu/honor-system/studenthandbook/index.php).

**Additional Details from Me**

All quizzes and exams are closed book, no notes, and you may not access the internet during an exam or quiz. You may and should use a calculator from exams. You are allowed (encouraged) to work together on problem sets, but you should write up the answers on your own. The problem set you submit and all exam answers should be based on your work.

Finally, all course material prepared by me are copyrighted and intended solely for the use of current students. These materials are not to be reproduced without permission.
Accommodations for Students with Disabilities:

- The College will make reasonable accommodations for persons with documented disabilities. Students should apply at the Center for Disability Services / SNAP, located on the first floor of the Lightsey Center, Suite 104. Students approved for accommodations are responsibility for notifying me as soon as possible and for contacting me one week before accommodation is needed.

- If there is a student in the class who has a documented disability and has been approved to receive accommodations through the Center for Disability Services / SNAP, please come and discuss this with me during my office hours.

- Any student eligible for and needing accommodations because of a disability is requested to speak with me during my office hours.

Other Support Services:

If you find yourself having trouble with the course material I would encourage you to see me and/or post questions on the course web site. In addition, you may wish to utilize the Center for Student Learning’s (CSL) academic support services for assistance in study strategies and course content. They offer tutoring, Supplemental Instruction, study skills appointments, and workshops. Students of all abilities have become more successful using these programs throughout their academic career and the services are available to you at no additional cost. For more information regarding these services please visit the CSL website at http://csl.cofc.edu or call (843)953-5635.

Course Goals:
1) Provide an understanding of the role financial markets and institutions play in the efficient allocation of resources.
2) Illustrate how the tools of economics can be used to understand the operation of financial markets.
3) Provide factual information about current US financial institutions and markets.

Readings

Topic 1: Introduction and the Economic Role of Financial Markets

1/11: C&S, Chs 1-3;
      W, “Everything You Wanted to Know about Potatoes”
      The Economist, “Finance: Trick or Treat”
      N. Kristof, “Is Banking Bad”
1/18  Quiz #1,
      Problem Set #1
Topic 2: The Determination of Interest Rates, Financial Market Surplus, and Present Values

1/23 Review Mankiw, *Principles of Economics*, Ch 26 (the market for loanable funds)
W, “PDV Formulae”
C&S, Ch 4 (skip the “Internal Rate of Return” Section), pp.125-133
Quiz #2

Topic 3: Bonds and the Structure of Interest Rates

1/30: C&S, pp. 142-149 & Ch 7
W, “A Panoply of Rates of Return”
*Adam Davidson*, “Why Greece’s Lenders Need to Suffer”
*WSJ*, “U.S. Two-Year Yield Near Seven-Year High Ahead of Fed Minutes”
Problem Set #2
Quiz #3
2/8 Problem Set #3

2/13 *First Exam (in class)*

Topic 4: Stock Prices, Present Values & the Role of the Stock Market in Determining Investment

2/15 C&S, Ch 8
W, “Keynes, Tobin and Q”
W, “Definitions of Market Efficiency”
Keynes, “Liquidity, Financial Markets and Investment”
W, “Keynes Discussion Questions”
Quiz #4

Topic 5: Risk Aversion and the Demand for Insurance

2/22 Nicholson, Ch 7, pp. 202-213
W, “Insurance Diagram”
W, “Taylor Series”
W, “Mean Variance Preferences”
Quiz #5
Problem Set # 4

Topic 6: Portfolio Theory

3/1: C&S, Ch 5 (including Appendix, 5.B, but not 5.A)
W, “More Detail on Expected Values”
Quiz #6
Topic 7: CAPM and its Implication

3/20: W, “Modigliani Miller and CAPM”
W, “The Weighted Average Cost of Capital”
Quiz #7
Problem Set #5

Topic 8: Derivatives and the Trading of Risk: Basics

3/27: C&S, Ch 9
W, “Futures and Options”
Quiz #8
3/29: Problem Set #6

4/3 Second Exam (in class)

Topic 9: Arbitrage Pricing, Risk Neutral Probabilities, and Options

4/5: Penati and Pennacchi, “Options Pricing”
Penati and Pennacchi, “The Cox-Rubinstein Options Pricing Model (up to equation 15 is required)
T. Copeland and P. Keenan, “How Much is Flexibility Worth?”
Gisiger, “Risk Neutral Probabilities Explained” (optional)
Penati and Pennacchi, “The Risk Neutral Valuation Method” (optional)
Quiz #9
4/12 Problem Set #7

Topic 11: Application of Options Theory: Imbedded and Real Options

4/17 A. Damodaran, “Application of Option Pricing to Equity Valuation,” (up to Illustration 6)
http://pages.stern.nyu.edu/~adamodar/New_Home_Page/lectures/opt.html
T. Copeland and P. Keenan, “How Much Is Flexibility Worth”
T. Copeland and P. Keenan, “Making Real Options Real”

Topic 12: Asymmetric Information, Financial Intermediation and Securitization

4/24 C&S, Ch. 11, pp. 277-289
N. Roubini and S. Mihm, Crisis Economics, Ch. 3, pp. 61-67
A. Jobst, “What is Securitization”
IMF Staff Discussion Note, “Securitization the Road Ahead,” Executive Summary
J-M. Fernandez, R. Stein, and A. Lo, “Commercializing Biomedical Research through Securitization Techniques,” pp. 2-12
Quiz #10