The Cameron School of Business at University of St. Thomas

1. Course Information

Course Title: Financial Economics

Course number: MBA 5342  Course Section: NA  Credit Hours: 3

Prerequisites: MBA 5302  Days & hours: M/W 7:00 – 8:15 p.m.

BlackBoard site: TBA

Note: Material covered in this class will be tested in the ETS major field test in MBA 5370/MGMT 4399.

2. Instructor Information

Name: Hassan Shirvani  Office location: Welder 211

Office phone: 713 525 2118

Office hours: Mon/Wed  3:00-5:30 / 6:45-7:00 p.m.
       Tues/Thurs  5:00-5:30 / 6:45-7:00 p.m.

Where to leave assignments: Slip under Office Door

Emergency phone: 713 525 2100  E-mail: shirvani@stthom.edu

Fax number: 713 525 2110

3. Course Catalog Description

This course provides a rigorous application of economic principles to the study of the role of the financial system in a modern economy. The course begins with the microeconomics of optimal decision making under uncertainty, which will serve as a foundation for the development and valuation of new financial products. In the process, the major capital asset pricing models are introduced and their relevance and realism critically assessed. The course also studies how macroeconomic developments and policies can influence the performance of financial institutions and markets. In addition, the impact of financial derivatives on macroeconomic performance during the recent financial crisis is closely studied. Thus, by offering an integrated blend of both economic and financial concepts and principles, the course should offer a deeper understanding of the interactions between the economic and financial sectors.

4. MBA Learning Goals
The Master of Business Administration has six goals. When students complete the MBA at the University of St. Thomas:

1. They will be able to effectively lead and participate in a team project.
   - Objective 1: Students can demonstrate appropriate group techniques to participate in a team task that results in effective performance.
   - Objective 2: Students can demonstrate effective leadership skills in a group project.

2. They will integrate multi-disciplinary perspectives in synthesizing and analyzing information to make sound business decisions.
   - Objective 1: Students can analyze ineffective business practices that result from poorly integrated business processes.
   - Objective 2: Students can formulate sound proposals for improving integrated business processes.

3. They will recognize current trends in the global business environment and identify opportunities for competition and collaboration.
   - Objective 1: Students can identify current trends in the global business environment.
   - Objective 2: Students can formulate how these trends can generate competitive advantage.

4. They will be able to articulate ethical behavior and standards cite relevant moral theory and provide suggestions for dealing with ethical issues
   - Objective 1: Graduates can recognize the ethical issues in a business situation.
   - Objective 2: Graduates can cite relevant ethical and moral theory in a business situation.
   - Objective 3: Graduates can apply relevant Ethical and Moral theory to provide creative suggestions to address the issue in a business situation.

5. They will be able to communicate effectively
   - Objective 1: When students complete the MBA, they can deliver a professional presentation.
   - Objective 2: Graduates can produce written materials that flow logically and are grammatically correct.

6. Graduates will demonstrate understanding of perspectives and the context of business.
   - Objective 1: When students complete the MBA, they can demonstrate management specific skills and competencies.

The first five goals, related to general knowledge, are assessed using course embedded method. Goal 6, which is management specific, will be assessed employing ETS Major Fields
5. Course Learning Goals (and relationship to program goals and objectives)

Upon successful completion of this course, you will be able to:

- Understand the modern theories of security valuation, and use this knowledge to make optimal financial decisions for business firms (MBA Goal #2).

- Recognize the strategic importance of modern risk management techniques in an increasingly risky global environment, and formulate appropriate hedging policies for business firms (MBA Goal #3).

- Communicate effectively by preparing financial projects and reports that can be used to aid financial decision makers (MBA Goal #5)

6. Texts, Readings, Materials

Required text citation:


Supplementary readings: (on reserve, handouts, library databases, etc.?)


7. Instructional methods: (lecture, group discussion, class problem solving, case methods, team projects, etc.)

This course uses lectures and class discussions to present the required materials. While the course covers some institutional material as background information, the emphasis throughout is on quantitative analysis and problem solving. Numerous problems are assigned and solved in the classroom, often with active student participation. In addition, the students are also required to prepare individual case studies.

8. Technology

1) Online data retrieval and/or research.

2) Use of general productivity software (e.g., Microsoft Office) to complete

9. Course Tentative Schedule:

Course Calendar/Schedule
## Assignments of topics, exams

<table>
<thead>
<tr>
<th>Assignments</th>
<th>Due dates</th>
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<tbody>
<tr>
<td>1. Introduction and Overview</td>
<td>Reilly, Chs. 1, 3, 5</td>
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<tr>
<td>This section offers a general introduction to the subject matter of the course, emphasizing the role of recent theoretical and empirical developments in the field of financial economics. The section also reviews some basic statistical and economic concepts needed for later use in the course. Finally, the section provides an overview of the recent performance of the US financial system.</td>
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<tr>
<td>2. Efficient Market Hypothesis</td>
<td>Reilly, Ch. 6, Malkiel, Chs. 1-7, 11</td>
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<td>This section examines the operational efficiency of the U.S. financial markets in the context of the efficient market hypothesis (EMH), a theory that lays out the conditions for and spells out the implications of market efficiency for financial performance. The section also offers an empirical assessment of the validity of EMH in the context of the US economy.</td>
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<tr>
<td>3. Microeconomics of Portfolio Choice</td>
<td>Reilly, Ch. 7, Malkiel, Ch. 8</td>
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<tr>
<td>Based on the microeconomics of optimal decision-making under uncertainty, this section reviews the theoretical contributions of Harry Markowitz to portfolio analysis. Based on the work of Markowitz, it is shown how diversification can reduce risk, and how optimal portfolios can be selected.</td>
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<tr>
<td>4. Asset Pricing Models</td>
<td>Reilly, Ch. 8, Malkiel, Ch. 9 (pp. 197-211)</td>
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<tr>
<td>This section reviews the economics of capital asset pricing models. The section also empirically evaluates the validity of these models.</td>
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<tr>
<td>5. Valuation of Securities</td>
<td>Reilly, Ch. 11</td>
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<td>This section applies capital asset pricing models to value bonds, preferred stocks, and common stocks.</td>
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<tr>
<td>REVIEW AND MIDTERM EXAM</td>
<td>Reilly, Ch. 25</td>
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<td>6. Evaluation of Investment</td>
<td>Reilly, Ch. 25</td>
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### Performance

This section evaluates investment performance of money managers, using a host of microeconomic and macroeconomic factors and theories.

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<tr>
<th>7. Bond Markets</th>
<th>Reilly, Chs. 18-19</th>
<th>Weeks 10-12</th>
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<tr>
<td>This section presents a general survey of fixed income instruments, with emphasis on bonds. The coverage of bonds will include, bond characteristics, bond yields, and bond investment strategies.</td>
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<th>8. Option Markets</th>
<th>Reilly, Ch. 22</th>
<th>Weeks 13-14</th>
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<tr>
<td>This section surveys the field of contingent liabilities, with emphasis on call and put options. The coverage will include option characteristics and markets, option investment strategies, and option pricing formulas. The relationship between option markets and the recent financial crisis is also examined.</td>
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<th>9. Futures Markets</th>
<th>Reilly, Ch. 21</th>
<th>Week 15</th>
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<tr>
<td>This section offers a general introduction to the futures contracts, focusing in particular on the futures contracts in financial assets. The section will discuss the basic features of futures contracts, futures investment strategies, and futures pricing formulas.</td>
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<tr>
<th>REVIEW AND FINAL EXAM</th>
<th>Week 16</th>
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**Statement on tentativeness of schedule:**

The above schedule and procedures in this course are subject to change in the event of circumstances beyond the instructor's control.

**10. Course Policies**

1) Students are expected to attend every class. It is the student’s responsibility to keep informed of any announcements, syllabus adjustments, or policy changes made during scheduled classes. I maintain a blackboard site for this course and will do my best to post such announcements in a timely manner on the site. However, you are still responsible for all class announcements, not just those that get posted to the web site.

2) Please turn off your cell phones and all other electronic devices before entering the class.
11. Student Grading Processes: *(including weighting of factors)*

There will be two exams, one midterm and one final, each worth 50% of your final grade. You can also obtain up to 5 points of extra credit by completing individual projects. If you know you will miss an exam for a legitimate reason, notify me as soon as possible, so we can make alternative arrangements. Without an explanation in advance, a make-up exam is unlikely to be allowed.

12. Available Support Services:

You can reach me during my office hours to discuss homework, lectures, or any other aspect of the class. In addition, you can reach me by phone and email, especially during the weekends prior to exams, to discuss last minute concerns about your scheduled tests.

The Cameron School of Business at University of St. Thomas

**MISSION STATEMENT**

The Cameron School of Business will serve students of diverse backgrounds, providing them the necessary professional skills for a changing global economy, and instilling in them a deep appreciation for ethical behavior as the hallmark of a successful and fulfilling business career. The Cameron School will provide its students a timely and comprehensive business curriculum, with opportunities for specialized study in major business fields. The faculty will provide quality teaching, as this is the core of our mission. As an extension of our teaching mission, the faculty will engage in scholarly activity and service to the University, the profession, and the community.

**Academic Honesty** Ethical conduct is essential to a community of scholars and students searching for truth. Anything less than total commitment to honesty and honorable conduct undermines the efforts of the entire community. Academic integrity lies at the very heart of any institution of higher learning. In the Cameron School of Business, students and faculty are expected to commit to a code that exemplifies each individual's honor and integrity. Any conduct that violates this standard and betrays the respect of others is a matter of grave concern and, accordingly, is deemed unacceptable.

**Accommodations** The University of St. Thomas abides by the Americans with Disabilities Act and Section 504 of the Rehabilitation Act of 1973, which stipulates that no student shall be denied the benefits of an education "solely by reason of her or his disability." If you have a documented disability that may impact your performance in this class and for which you may require accommodations, you must be registered with and provide documentation of your disability to Counseling and Disability Services which is located on the second floor of Crooker Center. Contact Debby Jones or Rose Signorello at 713-525-6953 or 713-525-3162.
Tutorial Services  Students are encouraged to consult with tutors at the Learning and Writing Center when completing written assignments for this course. Based on the instructor’s assessment of the student’s written work, the student may be required to work with the tutors at the Learning and Writing Center to improve the student’s writing skills.