

Financial Economics  
220:393:03  
Prof. Paczkowski

Spring, 2009

January 9, 2009



My office hours are:  
Thursday 12:00 PM - 2:00 PM  
and by appointment

Office Location:  
Room 108, New Jersey Hall - CAC  
732-932-7363

Otherwise, 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 call me with any questions or see me before or after class. Do not wait until the end of the semester!

A final way to reach me is 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.

## 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 Prerequisites

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

1. 220:203
2. or 373:422
3. 220:322

## 5 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.

## 6 Calculators

Since numerical calculations will be done often 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 or pda that has a calculator. They do not have the functionality to do the required work.

## 7 Textbook

The textbook is

**Fundamentals of Corporate Finance**, 8<sup>th</sup> Edition (Standard)  
by Ross, Westerfield, and Jordan (McGraw-Hill Irwin)

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.

## 8 Lecture Notes Online

I am against putting lecture notes online. However, as a courtesy, notes will be made available on my website, but only for the duration of the lecture topic; then they will disappear. The notes are incomplete. You must attend class to get the full set.

## 9 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.

## 10 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.**

## 11 Exams

There will be two hourly exams and a final.

### 11.1 Hourly Exam Dates

The hourly exams will be on (approximately)

March 5

April 2

These are typically announced one week before the exam.

## 11.2 Final Exam Date

The final is already scheduled by the University:

May 13, 8 - 11 AM

Above all, please check the University website for exam dates and times:

<http://scheduling.rutgers.edu/springfinals.htm>

It is your responsibility to verify the date and time. **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.**

## 11.3 Exam Contents

The three exams are comprehensive and will be focused on grand themes, issues, derivations, and computations. They are meant to synthesize the material. Each hourly exam explicitly covers only the material in the reading assignments and covered in class since the last exam. In this sense, the hourly 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. Unlike the two hourly exams, the final exam is cumulative, covering all the material taught in the course.

Each exam will consist of derivations, calculations and short explanations/interpretations. Since calculations are part of the exams, you may want to have a calculator that at least has the usual four functions and a square root key. You will not be allowed to use a cellphone or pda that has a calculator. They do not have the functionality to do the required work so they will be useless anyway.

## 11.4 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. Points are deducted if the answers are not in acceptable essay form. In short, it's not only what you say, but how you say it that counts.

## 11.5 Makeup Exams

There are no makeups for missed exams due to tardiness or being absent - 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 Dean's Office and appropriate documentation (e.g., medical, court order). It is your responsibility to notify the Dean's Office of a medical or personal problem (e.g., death in the family) resulting in a missed exam. Excuses are not accepted; only a note from the Dean's Office 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.

## 12 Homework

Numerous examples are built into the lectures but these are not always sufficient for gaining mastery of a topic. The examples must be supplemented by problem sets that you work on. Consequently, problems from the text will be assigned as appropriate. However, the problems will not be turned in and graded. Rather, we will discuss the solutions in class. Some students may be called upon to work problems on the board or answer questions about a solution. **It is your responsibility to do the problems and ask questions, even if they are not turned in for a grade.** You are strongly urged to do the problems since the exams will be largely problem oriented.

## 13 Grades

Grades are determined on a points-earned basis with the following importance weights:

First Exam	33%
Second Exam	33%
Final	34%

A straight curve is used:

90% to 100%	A
88% to less than 90%	B+
80% to less than 88%	B
78% to less than 80%	C+
70% to less than 78%	C
60% to less than 70%	D
Less than 60%	F

## 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 last class, 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*" are 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.

## 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.

## 17 Minor Calendar Note

Spring Break begins March 14<sup>th</sup>, not before.

## 18 Frequently Asked Questions

See my web site

<http://econweb.rutgers.edu/paczkows>

These FAQs give answers to most class policy questions.

## 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 Link

Here's the link for the academic integrity policy:

[http://catalogs.rutgers.edu/generated/nb-ug\\_current/pg21724.html](http://catalogs.rutgers.edu/generated/nb-ug_current/pg21724.html)

## 19.2 Level Three Violations

Level three offenses involve dishonesty on a significant portion of coursework, such as a major paper, an hourly, or a final examination. Violations that are premeditated or involve repeat offenses of level one or level two are considered level three violations.

Examples: Copying from or giving others assistance on an hourly or final examination, plagiarizing major portions of an assignment, using forbidden material on an hourly or final examination, using a purchased term paper, presenting the work of another as one's own, altering a graded examination for the purposes of regrading.

Recommended Sanctions: Suspension from the university for one or more semesters, with a notation of "academic disciplinary suspension" placed on a student's transcript for the period of suspension, and a failing grade in the course.

## 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.



Department of Economics  
Rutgers, The State University of New Jersey  
February 2008  
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.