

FIN 371M - Fall 2012

Money and Capital Markets

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Class: TTH 2:00-3:15 in UTC 4.124
Office Hours: Tuesday, 9:30-11:30 am
Thursday, 5:00-6:00 pm

Textbook and Required Supplemental Text

Custom textbook based on: Foundations of Financial Markets and Institutions by Frederic S. Mishkin and Stanley G. Eakins

Investment Banking: Institutions, Politics, and Law by Alan D. Morrison and William J. Wilhelm, Jr., Oxford UP (978-0-19-954418-9)

Additional Required Readings

Students are required to have access to *The Wall Street Journal*. A link for the discounted student subscription is available on Blackboard. If you choose not to subscribe, you *will* be responsible for finding the articles I assign from the WSJ.

I will regularly email links to *Wall Street Journal* articles for the purpose of class discussion. This discussion will make up a significant portion of your class participation grade.

Additional readings will be posted in advance on the course calendar, also accessible under the syllabus tab in Blackboard. Most of these readings will be from *The Journal of Economic Perspectives*, which is available for free. Other articles will include links that will take you to the paper if you are on campus and hopefully even if you are not. Otherwise, you should be able to search for the articles via the Google scholar page on the University of Texas library website.

Purpose of the Class

This class is designed to provide institutional and theoretical foundations for the wide variety of financial assets in a modern capital market. We will focus on how the needs of investors and the needs of firms interact to produce the often bewildering array of financial instruments available. A major topic in the class will be how government intervention influences the the development of such markets. We will also address why markets for money and capital seem predisposed to periods of crisis and we will address the concept of “systemic risk” within a financial system.

Format of the Class

Classes will take the form of lectures and discussions. Most classes will begin with a discussion of some recent event in the financial markets, based on a current WSJ article. You are expected to actively participate in at least some of these discussions.

In particular, you will find a field in the course calendar entitled “Discussion Leader.” You are required to sign up to help lead the discussion for at least one class meeting. There will be 3 or 4 slots available each day, and you can sign up as soon as the article for that day has been distributed. You must be prepared to start the discussion and comment throughout the discussion on the day you sign up.

Material from the textbook, along with additional material, will be covered in lectures. On days where an external reading assignment is posted as being due, we will have a discussion of the assigned paper. **You are expected to have read the paper and to be prepared to answer questions about the content and to engage actively in the discussion. Most discussion will be on a voluntary basis, but I will occasionally cold-call students during these discussions. If you fail to read the assigned papers, you are probably better off not attending class.**

I also anticipate assigning at least two cases, and in the case presentations students are expected to prepare reports in teams and be prepared to discuss or present their results when called upon to do so. Some class periods will be devoted to games, which are explained further below. My intention in lectures is to focus on presenting the economic theory that informs our understanding of the various markets and instruments that we study in addition to institutional details of the various markets. Lectures will also present current empirical work in financial economics relevant for the current topics.

Games

Several class periods will be dedicated to games based on papers in the experimental economics literature. Games will be played with experimental currency, and I will keep track of each player’s earnings. Final earnings in each class period are completely separate, and negative balances will be ignored. That is, if you perform very badly in one game, it will not ruin your chances of coming out ahead in another game and will certainly not hurt your score on an exam or anything. At the end of the class, I will convert experimental currency balances into class participation points at an exchange rate that I will determine. It is highly unlikely that anyone’s grade will change as a result of performance in the games, but you will learn more and possibly have more fun if you pretend like it matters. I will NOT use any data collected for any purpose other than teaching this class, improving the experiments for future years, or, possibly, presenting the data in future classes. The data will *not* be used as part of any research project.

Class Participation and Attendance

Class participation is a significant portion of your grade. The two main ways to earn a good score on class participation are to actively participate in the discussions of current events that will generally take place at the beginning of class and to actively participate in the discussions of the external papers. It is particularly important to do a good job when you are among the “discussion leaders” for a particular class.

Attendance is not mandatory, but you are unlikely to perform well on the class participation dimension if you do not attend class regularly.

Any student scoring in the top 95% on one exam and the top 90% on the other two will automatically receive full credit for class participation.

Final Presentation

The last four (or five, depending on enrollment) class meetings will be dedicated to student presentations. This project will be completed in teams of two. You will be expected to select some topic related to the class but not covered directly. You will have 15 minutes to present and take questions. You are more than welcome to select a topic related to something covered early in the class and complete the project well before the end of the semester to avoid conflicts with exams and other assignments. If you choose to do this and would prefer to present earlier in the semester, please let me know.

Cases

I anticipate assigning two cases, which will be completed in teams. You will be required to turn in a brief case report and be prepared to discuss the case in class. Active, prepared discussion of these cases will be an important part of your class participation grade.

Problem Sets

There will be occasional problem sets which will **not** be collected. See below, however, regarding quizzes. Class time will be allocated to answer questions about the problems, and students are welcome to attend office hours to ask questions about these problems *around the time they are assigned*. If you wait until immediately before the exam to ask questions about these problems, you can expect cursory answers at best. At my discretion, I may post solutions to some of the problems, but it is your responsibility to work out the problems and ask questions in class. **Do not count on using the solutions to study for the exams in lieu of actually working out the problems yourself.**

Quizzes

There will be frequent, unannounced quizzes covering papers and assigned problems for a given day. These will test whether you read and understood the assigned papers and whether you completed the problems. For the problems, I will usually give a problem that is similar or identical to the assigned problem. I will drop your lowest two quiz scores, which should provide adequate leeway for missed classes. A single excused absence (official travel, documented illness, interviews, and similar) will not count against this total, but multiple excused absences from quizzes will, except in exceptional circumstances, need to pull from this 2 drop pool.

Grading

Exam I (September 25):	18%
Exam II (October 23):	19%
Exam III (November 13):	19%
Quizzes (Various times):	7%
Case reports (total):	7%
Final Presentation: :	15%
Class participation:	15%

The class will be “curved” in the sense that there is no established mapping between numerical grades on exams and final grades. I will provide sufficient statistical information about the distribution of grades on exams and other assignments that you will be able to tell where you stand. As a general rule, the percentage grades on my exams runs much lower than in other classes, but this is COMPLETELY IRRELEVANT for the distribution of final grades. Final grades will be determined

by performance relative to the mean on each assignment, as measured by the standard deviation.

In the final assignment of grades I will endeavor to approximately match the distribution of grades standard for elective courses in finance, although I reserve the right to shift the distribution based on aggregate performance. In determining final grades, I will balance a target for the final distribution with a criteria for minimizing the number of students who are very close to cutoffs. Details of the algorithm will be available upon request.

Students turning in assignments late without good reason will generally receive a zero on the assignment. Students failing to turn in an assignment at all will fail the class except in extraordinary circumstances.

Course Policies

- Students are responsible for all material in the reading and in the lectures. These will not always overlap.
- Students are responsible for finding out about any administrative announcements made during lectures that they miss.

Makeups

Students missing an exam for good reason, including and more or less limited to (documented) illness or death (or extremely serious illness) in the immediate family, may be given the opportunity to make up the exam or may instead have the remaining exams count for a higher percentage of the grade, at my discretion. Students missing an exam for a reason that I do not consider “good” (e.g. oversleeping, travel for weddings) will, at my discretion, either (1) receive a zero on the exam or (2) take the makeup exam and receive the lower of the two class grades, calculated with and without the makeup exam. ANY ATTEMPT TO ABUSE THIS POLICY OR TO EXPLOIT MAKEUPS TO PASS INFORMATION ABOUT THE EXAM WILL BE CONSIDERED THE MOST AGGRAVATED FORM OF CHEATING.

Students with Disabilities

The University of Texas at Austin provides upon request appropriate academic accommodations for qualified students with disabilities. For more information, contact the Office of the Dean of Students at 471-6259, 471-4641 TTY.

Academic Integrity

I will pursue the most severe available consequences for any act of cheating. To be more specific, I am unlikely to respond to any act of scholastic dishonesty by assigning a grade of F on the *assignment* in question. The final decision on these matters rests with the University administration.

Official University Statement: *The McCombs School of Business has no tolerance for acts of scholastic dishonesty. The responsibilities of both students and faculty with regard to scholastic dishonesty are described in detail in the Policy Statement on Scholastic Dishonesty for the McCombs School of Business: By teaching this course, I have agreed to observe all of the faculty responsibilities described in that document. By enrolling in this class, you have agreed to observe all of the student responsibilities described in that document. If the application of that Policy Statement to this class and its assignments is unclear in any way, it is your responsibility to ask me for clarification. Policy on Scholastic Dishonesty: Students who violate University rules on scholastic dishonesty are subject to disciplinary penalties, including the possibility of failure in the course and/or dismissal from the University. Since dishonesty harms the individual, all students, and the integrity of the University, policies on scholastic dishonesty will be strictly enforced. You should refer to the Student Judicial Services website at <http://deanofstudents.utexas.edu/sjs/> or the General Information Catalog to access the official University policies and procedures on scholastic dishonesty as well as further elaboration on what constitutes scholastic dishonesty.*

Grading Disputes

You will have an opportunity to look over your exams during class and to look at them further in the Finance office. I may field questions about grading during the class in which we go over the exam, but all further grading complaints must be submitted *in writing*.

Class website

Password-protected class sites will be available for all accredited courses taught at The University. Syllabi, handouts, assignments and other resources are types of information that may be available within these sites. Site activities could include exchanging e-mail, engaging in class discussions and chats, and exchanging files. In addition, class e-mail rosters will be a component of the sites. Students who do not want their names included in these electronic class rosters must restrict their directory information in the Office of the Registrar, Main Building, Room 1. For information on restricting directory information see: <http://www.utexas.edu/student/registrar/catalogs/gi02-03/app/appc09.html>.