



FINANCE 371M – MONEY AND CAPITAL MARKETS (UNIQUE # 03445, 03450, 03455, AND 03460)

FALL 2018

Professor	Sanford J Leeds
Office	GSB 5.164
Office Hours	Tuesday and Thursday 9 – 11 AM; 5:15 – 6:15 PM
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Course Web Page	via Canvas
Teaching Assistant	I prefer that you see me with questions

Course Objectives

This course is designed to give you a deeper understanding of money markets and capital markets. We will study the economy, the stock market, the bond market and money market. You should leave class with an improved understanding of monetary policy, fiscal policy, and how markets behave. By the end of the semester, you should feel significantly more comfortable processing the financial news and discussing the markets.

Materials (the packet is all that is required)

Packet: We will rely on notes that I have written. You can either buy a copy at the GSB Copy Center or print a copy for yourself (the notes are posted on Canvas). If you want to do well in the class, you need to read these notes. **You will need to bring a hard copy of these to class.** We will not use technology in the classroom.

Optional: Modern Principles of Economics (3rd ed.), by Tyler Cowen and Alex Tabarrok (2014) (Available on Amazon) – **NOT REQUIRED – ONLY IF YOU NEED EXTRA HELP**

Further Reading (after the semester): Applied Financial Macroeconomics and Investment Strategy: A Practitioner’s Guide to Tactical Asset Allocation, by Robert T. McGee (2015) (Available on Amazon); Predicting the Markets, by Edward Yardeni (2018)

Supplemental – on Canvas, there will be additional notes, papers, articles and speeches posted. You are NOT responsible for any of this supplemental material. Rather, it may help you if you want to gain a deeper understanding of a particular subject.

Barron’s: We will frequently discuss articles from Barron’s. You can get a student subscription for \$50.

Calculator: You will need a business calculator for this class. The calculator should have the following keys: IRR, n, i, PV, PMT, FV, and CF. **You should bring a financial calculator to every one of our class meetings.**

Prerequisite

Finance 371M is a Restricted Course for students who are currently enrolled in a major program in the College of Business Administration. Note that several prerequisites apply for this course and are published in the Course Catalog. Prior completion of Finance 357 or Finance 357 H and its prerequisites are among these requirements. **I do NOT have any control over who is admitted to this class.**

While FIN 367 is not a prerequisite, you may be at a disadvantage if you have not studied bond pricing and yields, duration, the dividend discount model, and stock market indexes.

Course Requirements and Grading

According to the Undergraduate Dean's Office, the average grade assigned in this class should be between 3.4 and 3.6. (Obviously, I will abide by this policy.)

We will have three exams during the semester. In addition, you will have three homework assignments that will be assigned in the week before your exams (in order to help you prepare). Your grade in the course will be determined as follows:

Exam 1	25%
Exam 2	30%
Exam 3	30%
Homework:	15%

Grades can be lowered by violating any of the policies described (later) in this syllabus.

Homework can be done either alone or with one other person. Any communication about the assignment with anyone other than your partner is considered to be academic dishonesty and will result in a grade of zero on the assignment and an additional decrease of your final course grade by two letter grades. If you decide to do the homework alone (and only your name is on your submission), this means that you are not allowed to discuss it with anyone else. Your name must be written on the homework when it is submitted. I will not allow a second name to be added to an assignment after the homework was submitted.

Optional Textbook (only if you feel like you need extra help; this is NOT required)

Relevant Textbook Chapters from "**Modern Principles: Macroeconomics (3rd Ed.)**," by Tyler Cowen and Alex Tabarrok

Unit 1: none

Unit 2: Chapters 6 – 8, 13 – 14

Unit 3: none

Unit 4: Chapter 10

Unit 5: Chapter 9 Appendix

Unit 6: Chapter 15

Unit 7: Chapter 16

Unit 8: Chapters 11 – 12

Unit 9: Chapters 17 – 18

Unit 10: Chapters 2, 19 - 20

Unit 11: none

Description of Requirements

Exams

All three exams will be held in class. My exams tend to include most of the material that I have taught (rather than just a few big questions). The tests will include both qualitative and quantitative material. The qualitative questions are usually multiple-choice and true-false, but short-answer could also be included. The difficulty level of the multiple-choice questions is intended to parallel the level of question that you could face on the CFA® exam. We will not have a final exam during exam week.

I test on what I teach. This means that each test will cover what we discuss in class as well as any reading assignments (pre-reads) and taped lectures (on bonds, multiples, and issues with growth). In addition, you will be responsible for all current events that we discuss in class. **(In many classes, you are not tested on articles about current events. In this class, you will be tested on these articles. This is a significant part of what this class is designed to teach.)**

I do not release old exams. I have found that releasing old exams is problematic because (1) it results in people studying “to the exam” rather than studying to learn; and (2) students inevitably feel that old exams are easier than the current exam. In addition, I do not allow students to keep their exams. This maintains the fairness of exams, since you know that no one has seen old exams. You will have ample opportunity to review your exam. With that said, I have posted some multiple-choice questions that are from the current event sections of prior semesters. This is done so that you can understand the level of questions you will face.

I consider it to be academic dishonesty to ask others what was on the exam. This means that asking students from prior semesters (or from different sections of this class) what you should study is an act of academic dishonesty.

I will be teaching four sections of this class. This means that some sections will be taking the test earlier than other section. Sharing (or receiving) any information with (from) someone in another section will result in failing the class. I am committed to fairness in grading and I will enforce this in the most aggressive way possible. I will do my best to ensure fairness – which is something that you all want.

Attendance Policy, Late Policy, and Disruption Policy

If you don't want to read the next two pages, here's the simple summary: this is a great class and it will be a lot of fun, but I need you to do your part. I need you to come to class, be on time, stay for the entire class, pay attention (don't use technology), and enjoy our time together. In short, simply be professional and enjoy class. Now, here's the long version of the rules...

I expect you to attend class, to be on time, and to not disrupt class. I understand that things happen – you oversleep, a bus runs late, you're sick, you have a meeting that runs late, etc. At the same time, you need to understand that this is a professional environment and it is my responsibility to create a culture of excellence. I use a point system to achieve this goal.

Points:

Missing class: 1 point

Late (but you arrive in the first five minutes): ½ point

More than five minutes late: 1 point

Arrive late, but do not write "LATE" next to your name on the sign-in sheet: 1.5 points
(NOTE: if I've started speaking and you're not seated, you're late.)

Leave early (within the last five minutes of class): ½ point

Leave more than five minutes early: 1 point

Leave early without noting this on the sign-in sheet: 1.5 points

Use of cell-phone/tablet/technology in class: 2.5 points per occurrence

Accumulating more than 2.5 points will result in your course grade being lowered:

2.51 – 3 points: 1 letter grade (e.g., A- gets lowered to B+)

3.01 – 4 points: 2 letter grades (e.g., A- gets lowered to B)

4.01 – 4.5 points: 3 letter grades (e.g., A- gets lowered to B-)

4.51 – 5 points: 4 letter grades (e.g., A- gets lowered to C+)

5.01 points or more: receive an F in the course

As long as you're on time (late no more than one time), this means you can miss two classes. **Do not waste these allowed absences. Assume that emergencies will arise.** You don't know when you will get sick or when you will have a family emergency. You should be saving your absences for this type of event. **Please do not come to me and ask me to make exceptions for you.** It would be unfair for me to hold some members of the class to a particular standard and to relax that standard for others.

You will NOT accumulate points for any of the following:

1. The first two times that you miss class for an **off-campus interview**, assuming that you have emailed me **48 hours in advance**. Your email should include the name of the employer and all details about the interview. If you will be interviewing a lot, you should also save your two points (described above) for additional classes that you will miss.
2. If you are sick AND you have a **signed note from the doctor**. This does not include any doctor that you are related to. You cannot just email me and say that you're sick. If I allowed this (without requiring a doctor's note), I really wouldn't have an attendance policy.
3. Religious holidays, assuming you have notified me one week in advance.
4. University-sponsored absences (e.g., sports, debate, etc.).

Also, please do not ask me to count some other absence as a job interview absence. I will not excuse your current job as an excused absence.

The bottom line is that this is a bad course to take if you don't plan on attending class, you can't make it on time, or you can't live without your cell phone. If you attend class and put in a good effort, I'm confident that you will learn a lot and you'll enjoy the experience. **Rest assured...I will hold myself to a higher standard than I will hold you.**

Two final points about attendance:

1. I am teaching this class from 2 – 3:15 and 3:30 – 4:45 on Mondays / Wednesdays in GSB 2.122. I am also teaching this class on Tuesday / Thursday from 12:30 – 1:45 in CBA 4.328. I cannot have you switching between classes on a regular basis. But, if you have an unusual event (an interview or a meeting), you can switch class times. Just let me know when you show up for the other class. No one should be doing this more than twice during the semester (but talk to me if this becomes an issue – the most important thing to me is that you attend class).

2. It is my expectation that you should be able to sit through our 75-minute class without getting up. Please fill up your water bottle before you come to class. Do not leave because you are receiving a phone call (if you do this, it means that you have violated the cell phone policy). I understand that you may feel sick or need to use the restroom and that this happens once or twice during a semester. That's absolutely fine. But, if this is something that you anticipate happening more than twice during the semester, you should discuss the issue with me. It may be that you need an accommodation letter from the Dean of Students.

How to Prepare for Class and the Exams

The assignments for each unit of our class are described below. Please understand that it is very difficult to stick to the calendar in this class. We will frequently discuss current events. There may be times when we discuss topics for longer than I expected.

Schedule

Class #	Packet Unit	Topic	Packet Pages Prep for Each Unit	In Class -- Packet pages
1	1	The Current State of the Economy	Read Barkin speech*	pp. 3 – 9 (handed out first day of class)
2	1	The Current State of the Economy		
3	2	GDP	Unit 2: pp. 10 – 22	pp. 23 – 26
4	2	GDP		
5	3	GDP / Problems with Growth**	Unit 3 Tape; Unit 3 pp. 27 – 38	p. 39
6	4	Equities	Multiples Tape	pp. 40 – 42
7	4	Equities		
8	4	Equities		
9	5	Bonds and Interest Rates	Taped lecture on “bonds”	pp. 43 – 45
10	5	Bonds and Interest Rates		
11	6	Background to Monetary Policy	pp. 48 – 54	pp. 46 – 47
12	Exam 1	Oct. 10 th / Oct. 11 th (in class)		
13	6	Background to Monetary Policy		
14	6	Background to Monetary Policy		
15	7	Fed and Monetary Policy	pp. 55 – 72	pp. 73 – 74
16	7	Fed and Monetary Policy		
17	7	Fed and Monetary Policy		
18	8	Dual Mandate	pp. 75 – 85	pp. 86 – 89
19	8	Dual Mandate		
20	Exam 2	Nov. 7 th / Nov. 8 th (in class)		
21	9	Fiscal Policy	pp. 90 – 112	pp. 113 – 116
22	9	Fiscal Policy		
23	9	Fiscal Policy		
24	10	Exchange Rates	pp. 117 – 128	pp. 129 – 131
25	10	Exchange Rates		
26	11	Cost of Education / Income Inequality	pp. 132 – 139	pp. 140 – 148
27	Exam 3	Dec. 5 th / Dec. 6 th (in-class)		

***Unlocking Our Potential**, by Richmond Fed President Thomas I. Barkin, August 8, 2018

**Unit 3 (Problems With Growth) is a taped lecture. We will only spend a few minutes in class on this. But, you are responsible for the taped lecture. When we quickly do an overview of this material, you might want to have the entire packet (pp. 1 – 11) with you in class.

Weather Disruptions, Instructor Absence, or Falling Behind Schedule: if class is cancelled due to weather or instructor absence, we will most likely have a taped lecture to make up for the class. I have only missed class twice (in 17 years), but it is always possible that issues can arise.

In addition, if we fall behind in class (because we spend additional time discussing current events), it is possible that there might be a taped lecture to make sure we stay on track.

I will need you to listen to a one-hour taped lecture about Unit 3 (rather than discussing it in class). This is because we are canceling one class for each section (see below).

KEY DATES

PLEASE NOTE: I DO NOT GIVE MAKE-UP EXAMS (EXCEPT FOR DOCUMENTED ILLNESS OR UNIVERSITY APPROVED ABSENCES). IF YOU CAN'T MAKE THE EXAMS, PLEASE DO NOT TAKE THIS CLASS.

We will cancel one class for the T/Th section and one for the M/W section. This will allow us to be on a schedule where the M/T classes are the same and the W/Th classes are the same. I'll explain the benefits of this in class. We will make up this class time by having a taped lecture on Unit 3.

Tuesday, Sep. 4th – No class for T/Th sections (I will still have office hours that day)

Thursday, Sep. 14th – please stop by my office hours by this date if you have an accommodation letter from the Dean of Students (or expect to have a letter)

**Weds. Oct. 3rd / Thurs. Oct. 4th: HW #1 due at start of class – hard copy
Weds. Oct. 10th / Thurs. Oct. 11th: Exam #1**

**Weds. Oct. 31st / Thurs. Nov. 1st: HW #2 due start of class – hard copy
Weds. Nov. 7th / Thurs. Nov. 8th: Exam #2**

**Weds. Nov. 28th / Thurs. Nov. 29th: HW #3 due start of class – hard copy
Weds. Dec. 5th / Thurs. Dec. 6th: Exam #3**

Monday, Dec. 10th – no class for M/W sections

The University of Texas at Austin McCombs School of Business



Sanford J. Leeds

Distinguished Senior Lecturer

Department of Finance

- MBA, University of Texas Graduate School of Business, 1995
- JD, University of Virginia School of Law, 1989
- B.S., University of Alabama, 1986

Sandy Leeds is a member of the Finance Department faculty at The University of Texas. He has been on the faculty for 17+ years and served as President of The MBA Investment Fund, L.L.C. for 13 of those years. He teaches both graduate and undergraduate level courses, including Corporate Finance, Advanced Corporate Finance, Public Policy (Long-Term Issues in the Markets), Investments, Portfolio Management / Security Analysis, Macroeconomics, and Money and Capital Markets. He has a J.D. from The University of Virginia School of Law, an MBA from The University of Texas at Austin and a B.S. in Investment Management from The University of Alabama. He is a member of the Texas State Bar and holds the Chartered Financial Analyst designation.

Prior to joining the faculty, Sandy managed money for a private money management firm. He was one of four portfolio managers responsible for approximately \$1.6 billion of assets. He spent the majority of his time analyzing publicly traded companies. He also has extensive experience implementing option strategies.

In addition to money management experience, Sandy also has significant legal experience. He has conducted approximately 100 jury trials and 100 bench trials. He has participated in the regulation of the securities industry, conducting the hearing against most of the principals involved in the Sterling Foster case (a \$75 million fraud). He has also advised attorneys on financial related litigation involving options, hedge funds, and other matters.

Sandy is a frequent conference speaker, typically discussing the economy and the markets. He used to write a blog (LeedsonFinance) that attracted more than 10,000 subscribers. Recently, he joined Keith Brown and Frank Reilly as a co-author of the 11th edition of “Investment Analysis & Portfolio Management.” This edition has just been released (spring of 2018).

At UT, Sandy has received numerous teaching awards, including three school-wide awards: the Joe D. Beasley Teaching Award (for teaching in the graduate program), the CBA Foundation Advisory Council Award for Teaching Innovation, and the Jim Nolen Award for Excellence in Graduate Teaching. He has received recognition from his students with the “Outstanding MBA Professor Award” (selected by the full-time MBA students in multiple years, the Evening MBA students and the Dallas MBA students) and the “Outstanding MSF Professor Award” (in multiple years). In 2015, he was selected (at the University level) to be a Provost Teaching Fellow and then served on the steering committee of that organization. Within the Austin community, he served a three-year term on the Investment Committee for the Austin Community Foundation (managing \$100 million) and recently finished a term as the vice-Chair for the Board of Trustees at The Girls’ School of Austin.

Academic Dishonesty

Academic dishonesty will not be tolerated. Any individual suspected of cheating, including stealing or using stolen examinations, will be disciplined to the maximum extent possible. Review UT Honor Code at <http://registrar.utexas.edu/catalogs/gi09-10/ch01/index.html>

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.

Students with Disabilities

Upon request, the University of Texas at Austin provides appropriate academic accommodations for qualified students with disabilities. Services for Students with Disabilities (SSD) is housed in the Office of the Dean of Students, located on the fourth floor of the Student Services Building. Information on how to register, downloadable forms, including guidelines for documentation, accommodation request letters, and releases of information are available online at <http://deanofstudents.utexas.edu/ssd/index.php>. Please do not hesitate to contact SSD at (512) 471-6259, 471-6441 TTY or via e-mail if you have any questions.

Religious Holidays

By UT Austin policy, you must notify me of your pending absence at least fourteen days prior to the date of observance of a religious holy day. If you miss a class, an examination, a work assignment or a project in order to observe a religious holy day, you will be given an opportunity to complete the missed work within a reasonable time after the absence.
