



FINANCE 390 – FINANCIAL MARKETS AND INSTITUTIONS

SUMMER 2018

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Course Web Page	via Canvas
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1. Course Objectives

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

2. Materials (Packet and Calculator Required; All Else is Optional)

Packet: We will rely on notes that I have written. They are all posted on Canvas. If you want to do well in the class, you need to read these notes several times. We will not use technology in the classroom. I recommend that you wait until the week before each class to print these slides. Because we are talking about the economy and the markets, the slides will frequently be updated with the most current data.

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.**

Optional: Modern Principles of Economics (3rd ed.), by Tyler Cowen and Alex Tabarrok (2014) (Available on Amazon); and Applied Financial Macroeconomics and Investment Strategy: A Practitioner's Guide to Tactical Asset Allocation, by Robert T. McGee (2015) (Available on Amazon)

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 (Optional): We will frequently discuss articles from Barron's. You can get a student subscription for \$50. Again, this is not required.

3. Course Requirements and Grading

Your grade in the course will be determined as follows:

Midterm Exam	40%
Final Exam:	40%
Project:	10%
Homework:	10%

I expect the average grade point of this class to be 3.42 +/- .05. In other words, the average grade point for the class will be between 3.37 and 3.47. The target distribution is A (25%); A- (20%); B+ (15%); B (35%); B- or lower (5%). Plus/Minus grading applies to this course.

Please understand that I do give Cs and lower grades. Normally, low grades are reserved for those who do not abide by the Attendance Policy (described below), Professionalism Policy (described below) or the Honor Code (also described below). Grades may also be lowered if you do not come to class prepared (I will frequently ask you to work some problems prior to class so that we can proceed at an adequate pace). **It is particularly important to me that you arrive on time, stay for the entire class, keep your laptops and tablets closed, do not use cellphones, don't text or email during class and respect your peers.** As the semester progresses, you will realize that I will hold you to a very high standard, but I will hold myself (and how this class is presented) to an even higher one.

Auditing this class is not allowed.

4. Description of Requirements

Exams

Both 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.

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 what you should study is an act of academic dishonesty.

Project

Your project will involve outlining three Fed speeches that you will be given during the semester. (It is possible that I will substitute a speech or report from a non-Fed official.) The outlines you prepare should be similar in quality to what we use in Unit 1. You will be given these speeches during the semester. **The project is to be done alone.**

Homework

Homework will involve quantitative problems that are designed to help you to prepare for the quantitative part of the class. They will be based on problems that we work in class. **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 full 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.

5. Schedule and Prep for Class

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.

Class #	Packet Unit	Topic	Prep for Each Unit	In Class (Packet pages from appropriate unit)
1	1	The Current State of the Economy	TBD* (see below)	pp. 1 – 4
1	2	GDP	Unit 2: pp. 1 – 9	pp. 2 – 3 and pp. 10 – 16
1	3	Problems with Growth**	Unit 3 Tape; Unit 3	See ** below
2	4	Equities	Investments Tape	Handout
2	4	Equities	Multiples Tape	pp. 1 – 3
3	5	Bonds and Interest Rates	Taped lecture on “bonds”	p. 1
3	6	Background to Monetary Policy	Unit 6: pp. 4 – 10	pp. 1 – 3
4	Exam 1	Units 1 – 4		
4	7	Fed and Monetary Policy	Unit 7: pp. 1 – 12	pp. 13 – 14
5	8	Dual Mandate	Unit 8: pp. 1 – 11	pp. 12 – 15
5	11	Exchange Rates	Unit 11: pp. 1 – 12	pp. 13 – 15
6	10	Fiscal Policy	Unit 10: pp. 1 – 25	pp. 26 - 29
7	12	Cost of Education / Inc. Inequality	Unit 12: pp. 1 - 10	pp. 11 – 16
7	Exam 2	Units 5 – 8; 10 – 11		

***The first lecture (the state of the economy) will be based on a recent speech or essay by a Fed governor or president. You will receive this one week before class. It will take an hour to read. It is necessary to do this at the last minute in order to read something current.**

**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.

*****Unit 9 is not covered in this class.** I have provided you an outline of this material and I encourage you to read it. You will **NOT** be tested on this material.

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 once (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.

6. Optional Textbooks

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: Chapter 21

Unit 4: Chapter 10

Unit 5: Chapter 9 Appendix

Unit 6: Chapter 15

Unit 7: Chapter 16

Unit 8: Chapters 11 – 12

Unit 9: none (see below)

Unit 10: Chapters 17 – 18

Unit 11: Chapters 2, 19 - 20

“**Applied Financial Macroeconomics and Investment Strategy: A Practitioner’s Guide to Tactical Asset Allocation**,” by Robert T. McGee (2015) will be discussed in **Unit 9**.

7. KEY DATES

PLEASE NOTE: I DO NOT GIVE MAKE-UP EXAMS. IF YOU CAN’T MAKE THE EXAMS, PLEASE DO NOT TAKE THIS CLASS.

Class Schedule

April 27 (Fri) 12:00pm – 6:00pm

May 11 (Fri) 12:00am – 6:00pm

May 25 (Fri) 12:00pm – 6:00pm

June 1 (Fri) 12:00pm – 6:00pm

June 8 (Fri) 12:00pm – 6:00pm

June 15 (Fri) 12:00pm – 6:00pm

June 22 (Fri) 12:00pm – 6:00pm

Due Dates and Exam Dates

May 25th – HW #1 Due (noon)

June 1st – Exam #1

June 15th – HW #2 Due (noon)

June 22nd – Exam #2

June 22nd – Project Due (noon)

8. Leeds Bio



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, Money and Capital Markets, and Financial Markets and Institutions. 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 on the upcoming 11th edition of "Investment Analysis & Portfolio Management." This edition is scheduled to be released in the spring of 2018.

At UT, Sandy has received numerous teaching awards, including three school-wide awards: the Joe D. Beasley Teaching Award (for outstanding 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.

9. Attendance Policy, Professionalism Policy, and Honor Code

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.

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.

Attendance Policy

It is my belief that we all have a responsibility to make this a great class. This means that we all need to be prepared, attendance is mandatory and we all must be on time. We only have seven meetings. It is my expectation that you will not miss class. **If you are absent (or late) more than once, I lower your final grade by one full letter grade by each occurrence.** For example, imagine that your tests, homework, and project qualify you for a course grade of A-. But, you missed one class and were late for two others. One of those three occurrences is excused. The other two will result in your grade being dropped to C-. The point is that you should not take this class if you are unable to attend class or be on time. Again, it is never my goal to lower grades. But, I have to weigh having rules like this (which I don't like) versus having one person disrupt our class repeatedly. You can see where I come out on this...

Please note: it is my expectation that you will be on time at the start of class as well as when we return from breaks. In other words, a person who struggles with time could violate the late policy multiple times in one day.

McCombs Classroom Professionalism Policy

MY COMMENTS ABOUT THE PROFESSIONALISM POLICY: I will expect you to comply with the Professionalism Policy and you should expect me to comply with it. I firmly believe that professional behavior (being on time, staying for the full class, no laptops) is crucial to a culture of learning. Additionally, this simple professionalism will do nothing to stop us from laughing in class and enjoying the learning process.

The Policy:

The highest professional standards are expected of all members of the McCombs community. The collective class reputation and the value of the Texas MBA experience hinges on this.

Faculty are expected to be professional and prepared to deliver value for each and every class session. Students are expected to be professional in all respects.

The Texas MBA classroom experience is enhanced when:

- **Students arrive on time.** On time arrival ensures that classes are able to start and finish at the scheduled time. On time arrival shows respect for both fellow students and faculty and it enhances learning by reducing avoidable distractions.
- **Students display their name cards.** This permits fellow students and faculty to learn names, enhancing opportunities for community building and evaluation of in-class contributions.
- **Students minimize unscheduled personal breaks.** The learning environment improves when disruptions are limited.
- **Students are fully prepared for each class.** Much of the learning in the Texas MBA program takes place during classroom discussions. When students are not prepared they cannot contribute to the overall learning process. This affects not only the individual, but their peers who count on them, as well.
- **Students attend the class section to which they are registered.** Learning is enhanced when class sizes are optimized. Limits are set to ensure a quality experience. When section hopping takes place some classes become too large and it becomes difficult to contribute. When they are too small, the breadth of experience and opinion suffers.
- **Students respect the views and opinions of their colleagues.** Disagreement and debate are encouraged. Intolerance for the views of others is unacceptable.
- **Laptops are closed and put away.** When students are surfing the web, responding to e-mail, instant messaging each other, and otherwise not devoting their full attention to the topic at hand they are doing themselves and their peers a major disservice. Those around them face additional distraction. Fellow students cannot benefit from the insights of the students who are not engaged. Faculty office hours are spent going over class material with students who chose not to pay attention, rather than truly adding value by helping students who want a better understanding of the material or want to explore the issues in more depth. Students with real needs may not be able to obtain adequate help if faculty time is spent repeating what was said in class. There are often cases where learning is enhanced by the use of laptops in class. Faculty will let you know when it is appropriate to use them. In such cases, professional behavior is exhibited when misuse does not take place.
- **Phones and wireless devices are turned off.** We've all heard the annoying ringing in the middle of a meeting. Not only is it not professional, it cuts off the flow of discussion when the search for the offender begins. When a true need to communicate with someone outside of class exists (e.g., for some medical need) please inform the professor prior to class.

Academic Dishonesty

I have no tolerance for acts of academic dishonesty. Such acts damage the reputation of the school and the degree and demean the honest efforts of the majority of students. The minimum penalty for an act of academic dishonesty will be a zero for that assignment or exam.

The responsibilities for both students and faculty with regard to the Honor System are described on <http://mba.mcombs.utexas.edu/students/academics/honor/index.asp> and on the final pages of this syllabus. As the instructor for this course, I agree to observe all the faculty responsibilities described therein. During Orientation, you signed the Honor Code Pledge. In doing so, you agreed to observe all of the student responsibilities of the Honor Code. If the application of the Honor System to this class and its assignments is unclear in any way, it is your responsibility to ask me for clarification.

As specific guidance for this course, you should not try to seek guidance about exams or types of questions from students who have previously taken this class. You should not do anything to aid future students in the testing process. Helping fellow students learn is an important part of our culture. I believe that it is easy to distinguish the attempt to help someone learn as opposed to the attempt to pass on information about exams.

Honor Code Purpose

Academic honor, trust and integrity are fundamental to The University of Texas at Austin McCombs School of Business community. They contribute directly to the quality of your education and reach far beyond the campus to your overall standing within the business community. The University of Texas at Austin McCombs School of Business Honor System promotes academic honor, trust and integrity throughout the Graduate School of Business. The Honor System relies upon The University of Texas Student Standards of Conduct (Chapter 11 of the Institutional Rules on Student Service and Activities) for enforcement, but promotes ideals that are higher than merely enforceable standards. Every student is responsible for understanding and abiding by the provisions of the Honor System and the University of Texas Student Standards of Conduct. The University expects all students to obey the law, show respect for other members of the university community, perform contractual obligations, maintain absolute integrity and the highest standard of individual honor in scholastic work, and observe the highest standards of conduct. Ignorance of the Honor System or The University of Texas Student Standards of Conduct is not an acceptable excuse for violations under any circumstances.

The effectiveness of the Honor System results solely from the wholehearted and uncompromising support of each member of the Graduate School of Business community. Each member must abide by the Honor System and must be intolerant of any violations. The system is only as effective as you make it.

Faculty Involvement in the Honor System

The University of Texas at Austin McCombs School of Business Faculty's commitment to the Honor System is critical to its success. It is imperative that faculty make their expectations clear to all students. They must also respond to accusations of cheating or other misconduct by students in a timely, discrete and fair manner. We urge faculty members to promote awareness of the importance of integrity through in-class discussions and assignments throughout the semester.

Expectations Under the Honor System

Standards

If a student is uncertain about the standards of conduct in a particular setting, he or she should ask the relevant faculty member for clarification to ensure his or her conduct falls within the expected scope of honor, trust and integrity as promoted by the Honor System. This applies to all tests, papers and group and individual work. Questions about appropriate behavior during the job search should be addressed to a professional member of the Career Services Office. Below are some of the specific examples of violations of the Honor System.

Lying

Lying is any deliberate attempt to deceive another by stating an untruth, or by any direct form of communication to include the telling of a partial truth. Lying includes the use or omission of any information with the intent to deceive or mislead. Examples of lying include, but are not limited to, providing a false excuse for why a test was missed or presenting false information to a recruiter.

Stealing

Stealing is wrongfully taking, obtaining, withholding, defacing or destroying any person's money, personal property, article or service, under any circumstances. Examples of stealing include, but are not limited to, removing course material from the library or hiding it from others, removing material from another person's mail folder, securing for one's self unattended items such as calculators, books, book bags or other personal property. Another form of stealing is the duplication of copyrighted material beyond the reasonable bounds of "fair use." Defacing (e.g., "marking up" or highlighting) library books is also considered stealing, because, through a willful act, the value of another's property is decreased. (See the appendix for a detailed explanation of "fair use.")

Cheating

Cheating is wrongfully and unfairly acting out of self-interest for personal gain by seeking or accepting an unauthorized advantage over one's peers. Examples include, but are not limited to, obtaining questions or answers to tests or quizzes, and getting assistance on case write-ups or other projects beyond what is authorized by the assigning instructor. It is also cheating to accept the benefit(s) of another person's theft(s) even if not actively sought. For instance, if one continues to be attentive to an overhead conversation about a test or case write-up even if initial exposure to such information was accidental and beyond the control of the student in question, one is also cheating. If a student overhears a conversation or any information that any faculty member might reasonably wish to withhold from the student, the student should inform the faculty member(s) of the information and circumstance under which it was overheard.

Actions Required for Responding to Suspected and Known Violations

As stated, everyone must abide by the Honor System and be intolerant of violations. If you suspect a violation has occurred, you should first speak to the suspected violator in an attempt to determine if an infraction has taken place. If, after doing so, you still believe that a violation has occurred, you must tell the suspected violator that he or she must report himself or herself to the course professor or Associate Dean of the Graduate School of Business. If the individual fails to report himself or herself within 48 hours, it then becomes your obligation to report the infraction to the course professor or the Associate Dean of the Graduate School of Business. Remember that although you are not required by regulation to take any action, our Honor System is only as effective as you make it. If you remain silent when you suspect or know of a violation, you are approving of such dishonorable conduct as the community standard. You are thereby precipitating a repetition of such violations.

The Honor Pledge

The University of Texas at Austin McCombs School of Business requires each enrolled student to adopt the Honor System. The Honor Pledge best describes the conduct promoted by the Honor System. It is as follows:

"I affirm that I belong to the honorable community of The University of Texas at Austin Graduate School of Business. I will not lie, cheat or steal, nor will I tolerate those who do."

"I pledge my full support to the Honor System. I agree to be bound at all times by the Honor System and understand that any violation may result in my dismissal from the Graduate School of Business."

10. 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.

11. 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.
