

ECON416: Capital Markets and Portfolio Choices

Section 01: TR 12:30 pm-1:50 pm, Chancellors Hall 121

Contact Information:

Instructor: Zhao Han; zhaohan@wm.edu

Office: Chancellors Hall 247

Office Hours: MW 2:00 pm – 3:00 pm or by appointment (please email me at least one day in advance)

Required Textbook

There are no required textbooks for the course. We will use *Investments*, 10th Edition, by Zvi Bodie, Alex Kane, and Alan J. Marcus as a reference.

Prerequisite

ECON303 (Intermediate Microeconomics), ECON304 (Intermediate Macroeconomics), and ECON308 (Econometrics). Students should generally have a good knowledge of calculus, regression analysis, and linear algebra. No prior programming experience is required. Consistent study habits coupled with an eagerness to learn and ask questions will help to achieve the learning objectives.

Course Description

This course is an upper-level undergraduate course focused on studying financial assets and the capital markets in which they are traded. The course belongs to the larger field of financial economics. It will provide analytical tools and derive formal models in asset pricing. The set of tools is used to understand how different assets are priced in the market and the relationship between risk and return. This course is meant to train students to think in a structured, analytical rigorous way about the fundamentals of asset pricing models, starting from the notions of market efficiency and ending with risk management principles. The course emphasizes active learning, group work, and interactive class discussions. This course will help prepare students entering graduate education or starting careers in management, finance, or economic consulting.

General Course Expectations

You are expected to attend all class periods, read or view the lecture material before class, participate in the class, and take notes as required. You are expected to finish the weekly assignment on time. Your grade is determined by your performance on a group project and two essay exams. At any time, in class or during office hours, you are more than welcome to ask questions. No question is a dumb question if

something is impeding your learning. Questions will promote discussion, and your insights could benefit the entire class.

Weekly Assignment

A weekly assignment (non-graded) will be posted each week to facilitate your understanding of the class material.

Group Project

High inflation has unpleasantly taken center stage in the economy three years into the COVID-19 pandemic. Your group project must be related to inflation and the macroeconomy.

To foster cooperative learning and an in-depth study of a particular topic of interest, students will be responsible for participating in a group project on an issue in capital markets and portfolio choices. You will be assigned to a group of 3-4 people. This project, which is worth 60% of your overall class grade, will be completed in **three stages**.

Stage 1: Project Proposal

Find an interesting topic in capital markets and portfolio choices, and develop and submit a short proposal. I will meet with your group after your submission to discuss your proposal. The purpose of the meeting is to brainstorm a polished research question. The research paper of the group project must contain a formal economic model and formal data analysis. You will develop a simple model, preferably using the tools and methods we discuss in class. I will also discuss with you how both qualitative and quantitative analyses can be designed for the project.

Stage 2: In-class Presentation

Your group will present your findings to the class at the end of the semester. The presentations should answer the following questions:

1. What are you studying? Why is the topic interesting from an economic perspective?
2. What is the empirical evidence?
3. How to interpret the empirical evidence?
4. Can your model explain the empirical evidence?
5. Based on your interpretation, what are the predictions, and policy implications?

The presentation should last about 40 minutes. Each group member is expected to contribute to the presentation, and part of the presentation grade will involve group members rating each other's level of participation. There is no fixed structure or format to the presentation. I will give you some general guidelines later on in the semester.

Stage 3: Final Report

During and soon after the presentation, your group will get feedback from your classmates and me. After getting the feedback, you will prepare a final written report to be submitted on the final exam day. The report must contain a **research paper**, about 10-15 pages long, including all the analyses and technical details.

Essay Exams

We will have two take-home essay exams; each is worth 20% of your overall class grade. The exams are designed to evaluate your understanding of the class materials. These exams, based on readings and in-class discussions, contain open-ended essay questions regarding the topics covered in class.

All exams are **open booked**, and you may use your notes if you would like. However, you will have **limited time** to complete the exam, so studying on the fly will not be a viable option. No cooperation is allowed during the exams, and any attempts of dishonesty will be punished with as much severity as the College permits.

If you need to miss an exam, you must notify me with a written/email request at least 24 hours before the exam. The only valid reasons for requesting a makeup exam would be: (1) documented College sponsored events; (2) A documented medical emergency; or (3) Some other documented extraordinary events. A makeup exam will be scheduled as soon as it can.

Academic Integrity

I expect everyone to follow the Honor Code. Please see your student handbook for details. “As a member of the William and Mary community, I pledge on my honor not to lie, cheat, or steal, either in my academic or personal life. I understand that such acts violate the Honor Code and undermine the community of trust, of which we are all stewards.” A minimum penalty for any breach of academic integrity is the grade of “F” for the course.

Grading Policy

It is your responsibility to keep track of your grades by regularly checking your Blackboard grade books. If you have a discrepancy, you will need to alert me in order to see if there is a mistake. The final grade

for the course is based on the percentage of the number of adjusted total points earned. Use the below chart to determine your final course grade.

	<u>Possible Points</u>	<u>% of Total</u>	<u>Grade</u>	<u>Points</u>	<u>Percentage</u>
Essay Exam 1	100	20	A	500-460	100-92
Essay Exam 2	100	20			
Group Project	300	60	A-	459-440	91-88
Total	500	100%	B+	439-425	87-85
			B	424-405	84-81
			B-	404-385	80-77
			C+	384-370	76-74
			C	369-350	73-70
			C-	349-335	69-67
			D+	334-320	66-64
			D	319-300	63-60
			D-	299-275	59-55
			F	274-0	Below 55%

Modification of policies may be required during the semester. I will make explicit announcements pertaining to any such changes.