

**ECONOMICS 528**  
**FINANCIAL ECONOMICS**  
TH: 7:00-9:45 pm; SGMH 2113

Office SGMH 3330  
Office Hours: Wednesday 5:30 - 6:50 pm, Thursday 5:30-6:50 pm, and by appointment  
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Phone: (657) 278-7281

**PREREQUISITES:**

Finance 517 or consent of the instructor. The nature of this course is quantitative and requires a good command of mathematical analysis, elementary calculus and inferential statistics. Students should also be comfortable with the basic concepts of probability, statistics and regression analysis. Excel and EViews will be used occasionally to demonstrate some theoretical concepts.

**REQUIRED TEXTS**

Bodie, Kane and Marcus, *Investments*; 9<sup>th</sup> Edition

**COURSE BACKGROUND:**

This course is designed to provide insights into the link between the financial sector and the macroeconomy, the nature of financial markets and their use by investors and corporations. There are three main parts to the course: 1) Portfolio Allocation, 2) Equilibrium Asset Pricing theory, and 3) Financial Markets, the Macroeconomy and Monetary Policy.

**COURSE OBJECTIVES:**

- Gain theoretical perspective on risk and uncertainty, investor risk aversion and their impact on asset allocation
- Understand Theory of Choice
- Understand the functioning of Capital Markets and Saving/Investment decisions
- Understand portfolio optimization theory as part of a saving/investment decision of investors
- Understand Asset Pricing as the equilibrium process that determines financial asset prices
- Understand various Asset-pricing theories such as: the CAPM, multifactor models, and APT
- Understand the link between the macroeconomic environment and financial markets

**TEACHING METHOD:**

A combination of lectures, presentations, discussions, practice problems, problem sets, in-class Excel data work, Eviews regression analysis, and exams will be used for teaching and assessment purposes

**GRADING AND EXAM POLICY:**

**Grade Weights and Important Dates**

Assignment	Grade Weight	Date
Midterm 1	25%	March 8
Midterm 2	25%	April 19
Final Exam	30%	May 17, 7:30-9:20 pm
Presentations	10%	TBA
Homework	10%	TBA

- ALL exams are closed notes, closed book
- No cheat-sheets will be allowed on any exam

- ❑ Final Exam is cumulative
- ❑ MAKE-UP EXAMS are generally not allowed. I would consider them only under the direst of extenuating circumstances (illness or other extreme emergency) **if and only** if you present proper documentation. Should I decide to allow a make-up exam, it should be taken within ONE WEEK of the EXAM DATE. If this is not possible under these very extreme circumstances, the final exam will carry the additional weight.
- ❑ Grades will be determined using the plus/minus system

## COURSE POLICIES:

### HOMEWORK

- ❑ **Graded Homework** – when assigned, are due at the beginning of each Thursday class period. You can work in groups of up to 3 people when solving homework assignments. In that case, please submit **ONLY ONE** Homework with all the names of the group members.
- ❑ Homeworks are closely linked to class lecture notes and the text, so before you start work on them take a look at your notes and the relevant book material.
- ❑ No late work will be accepted. Solutions will be provided in Blackboard right after the due date of each assignment.
- ❑ Assignments should help substantially with your exam preparation

### TEST PREPARATION

- ❑ **Problem Sets** - I will post various solved examples relating to the subject matter on Blackboard. You are responsible for reading and understanding these solved problems in order to prepare for exams.
- ❑ **Other material** – I will also post various materials on Blackboard such as: handouts, PowerPoints, chapters from other books, academic papers, journal articles that are relevant to the subject at hand. We will go over these in class, but you should study them for the exam as well.
- ❑ **Lecture Notes** – The VAST majority of the material covered will come from lecture notes, book chapters, PowerPoints, and handouts. Lecture notes *expand* the text material *substantially* and in some cases are the only source of information for the class. Lecture notes are very important and you should make every attempt to attend class or get lecture notes from another student when you are unable to attend.
- ❑ **Book Chapters**- The text is very well-written and fairly easy to understand. You should make every attempt to read all the material assigned.
- ❑ **Test Composition** - Tests will be based on class notes, book and supplemental reading, graded homeworks, solved in-class examples and solved questions posted weekly on Blackboard.

### CLASS ATTENDANCE AND BEHAVIOR

- ❑ **Attendance and Participation**- Although attendance is not mandatory, a substantial amount of the material covered will come from lecture notes. Attending class is essential to your performance in this course. As this is a seminar course, I expect you to actively participate in class (presenting, solving problems, discussing issues, explaining concepts, etc.)
- ❑ **Computers** – Although this class will be held in a lab, you are NOT permitted to check e-mail, play with the internet or carry out other computer-related activities during lectures, unless instructed to do so.

### OTHER

- ❑ **Final Grade** – The final course grade is the instructor’s final evaluation of the student’s performance and is not open for negotiation once it has been assigned.
- ❑ **Extra Credit** – I do not assign extra credit work during or after the semester
- ❑ **BlackBoard** – Students should have access to Blackboard and check it very frequently.
- ❑ **CSUF E-mail** – You should keep a current CSUF e-mail address and check it periodically as I will often communicate with you via the e-mail distribution list on Blackboard.
- ❑ **Recording Lectures** – Please DO NOT record my lectures without my explicit consent.
- ❑ **University Policy Regarding Academic Dishonesty** - Cheating is against the rules. Academic dishonesty will result in a lower letter grade, and may result in an “F” for the course, plus additional university disciplinary actions.

### **Message from the College of Business and Economics (CBE):**

**The main purpose of the degree program at Mihaylo College of Business and Economics (MCBE) at CSU Fullerton is to provide you with the knowledge and skills that prepare you for a successful career in business. In order to assist us in achieving this goal, we will use a number of assessment tools to track your progress throughout the MCBE curriculum. Please expect to participate in MCBE assessment activities in several of your courses while at MCBE. As you do so, you will assist us in identifying our program’s strengths and weaknesses as well as areas for potential improvement. In other words, you are making an important investment in the value of your degree.**

## **TENTATIVE COURSE OUTLINE**<sup>1</sup>

<b>I.</b>	<b>Introduction to Basic Tools for Portfolio Analysis</b> Financial Markets, Financial Instruments, Holding Period Returns; Risk and Risk Premiums Probability and Statistics Review Normal Distribution, Skewness, Kurtosis, Sharpe Ratio	<b>Ch. 1, 2 &amp; 5 presentation &amp; video</b>
<b>II.</b>	<b>Theory of Choice: Utility Theory Under Uncertainty</b> Risky Gambles Utility Functions Certainty Equivalence and Cost of Gambles Insurance	<b>Lecture Notes</b>
<b>III.</b>	<b>Capital Markets, Consumption and Investment</b> Consumption/Investment Decision Without Capital Markets No production economy, production economy Consumption/Investment Decision with Capital Markets Consumption/Investment Decision with Capital Markets and Production	<b>Lecture Notes</b>
<b>IV.</b>	<b>Utility, Risk Aversion and Capital Allocation</b> Expected Utility and Risk Aversion Capital Allocation across Risky and Risk-free assets	<b>Ch. 6</b>
<b>V.</b>	<b>Optimal Portfolio Theory</b> Portfolios of One Risky and One Risk-free asset Portfolios of Two Risky Assets Portfolios with Two Risky and One Risk-free Asset Markowitz Portfolio Allocation	<b>Ch. 7</b>
<b>VI.</b>	<b>Index Models</b> Regression Equation and the Index Model: Expected Return/Beta Relationship Beta Analysis Alpha Analysis	<b>Ch. 8</b>
<b>VII.</b>	<b>CAPM</b> The Capital Asset Pricing Model The Security Market Line	<b>Ch. 9</b>
<b>VIII.</b>	<b>Multifactor Models and APT</b> Multifactor Macro Models	<b>Ch. 10</b>
<b>IX.</b>	<b>Financial Markets, Financial Crises, the Macroeconomy and Fiscal/Monetary Policy</b> Exotic Finance and the Global Financial Crisis of 2007-2009 Policy Response during and after the Recent Financial Crisis The Federal Reserve and Financial Markets The Role of Government in the Economy and the Financial Sector Sovereign Debt, Eurozone crisis and implications Portfolio Allocation, Pensions, Aging and Financial Markets	<b>Papers &amp; Presentations</b>

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<sup>1</sup> The professor reserves the right to change this course outline at any time during the semester. You will be notified of any changes.