University of Delaware  
Lerner College of Business and Economics  

FINC 871  
Workshop in Financial Economics: Seminar  

Course Description and Reading List  

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Abstract  

The Workshop in Financial Economics is a graduate-level introduction to financial economics, intended mainly for students with high-level goals in the practice of finance. This document provides a course overview, course requirements, schedule and reading list information.  

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1 Introduction

This course is graduate-level overview of key areas in financial economics. It is intended mainly for students who have high-level goals in the practice of finance. The course covers fundamental topics in several major areas, including market efficiency, asset pricing, market microstructure, information flow, capital structure, and securities issuance. You will note that the early topics in this list are more “in the market” and the later topics are more “in the firm,” with a continuum flowing in between. Depth of coverage varies according to the topic, based on my judgment of what makes for a cohesive yet broad course, considering the time available in a one-semester survey.

Unlike most courses in finance for practical people—but like courses in some other social sciences—we will read and discuss the scientific literature in finance. The objectives are (1) to provide a well-grounded view for what the science knows about these core areas, and (2) how it knows it. The overarching goal that connects these objectives is to provide students a long-term career edge: skills in reading and reasoning to be able to continue to develop their finance knowledge over time as the knowledge of the field progresses.

To keep the scientific topics of the course tightly linked to the needs of practitioners, our topics are covered in terms of a set of focal practical questions. These questions form the structure of the course, and are listed in the final section of this document. To help students gain skill with this kind of information and thinking, the course includes two prominent structural elements. First, reading is guided by a set of structured questions to help you learn how and where to focus. Second, each topic includes a student-led review, discussion, and presentation process. This process affords the leaders an opportunity to practice, and provides a support for students who are not the leaders on a particular topic.

This class is conducted with a combination of lecture and seminar styles. Students are expected to read, write about, present, and discuss current and seminal articles from the field.

2 Prerequisites

This course is built for two groups of students.

- First, this course is for students who have completed at least one...
semester of the Master of Finance program, including FINC870 Theory of Financial Decision Making and an econometrics course (ECON803 or an equivalent econometrics course). FINC870 focuses on “in the market” topics rather than “in the firm” topics. Therefore, the coverage of markets topics in the present course builds on the FINC870 foundations, while the coverage of corporate topics is essentially from scratch.

• Also, this course is for students who have completed at least one semester of the Master/Ph.D. in Economics program and have a strong interest in finance. For these students, I assume students understand basic microeconomics (e.g., at least ECON801 level), and that they are familiar with fundamental econometric techniques (e.g., at least at ECON803 level). Additionally, economics students should be familiar with the basics of managerial finance at the level of MBA courses FINC850 and FINC852.

So that the course is accessible to both these student group, the formal prerequisites include either FINC870 or ECON801. I will provide video tutorials in portfolio theory and the capital asset pricing model, two key FINC870 topics, either for your review or coverage of these topics for the first time (depending on your prior preparation). These videos are testable material; I expect everyone to study them. You will find them listed in the Reading List around the middle of the semester, and you can watch them via a link on our Canvas LMS.

Additionally, Empirical Financial Analysis (FINC867 from Fall 2012) or graduate Econometrics (e.g., ECON803) is required as background. Note the requirement is for econometrics, not a broad course in statistics or an empirical methods course from some other field.

3 Student responsibilities

Your core responsibility is to be an active and intellectually engaged scholar. More specifically, I expect the following.

You will regularly prepare for class discussions by studying and answering preparation questions (in writing) regarding a set of readings. These “Prep Q” assignments are a central part of the intellectual work of the course. I do not expect cursory responses, but ones that reflect your thoughtful
consideration of the reading. You will be prepared to discuss those readings and Prep Qs orally in class. During class, you will be an active listener and contributor.

Additionally, you are responsible to serve as the student online-discussion-leader on a specific topic area and the student presenter on a reading related to that topic area. You will do this as part of a team. The “discussion leader” and “presenter” duties are related but distinct.

- As the discussion leader, you will write and organize on-line notes/summaries for your colleagues on your assigned topic area using the Pages function in the Canvas LMS system. You will work to generate Q&A among your colleagues regarding this topic, using the Piazza Q&A system, and will reflect this discussion in your on-line notes/summaries page. I will tell you more about both of these in class. For reference, our Piazza site is: https://piazza.com/class#spring2013/finc871.

- As the presenter, you will share your analysis of a specific reading briefly with the class as part of our exam prep process. You will present your assigned article in the context of the broader discussion area for which you have been the leader. You will make a voice/slide/video recording (outside of class, a “studio version”) of your presentation so that your colleague can study it, and you will post it on the Canvas LMS. The articles assigned for presentation are of a different nature than most of our readings—they are chosen for their intellectual accessibility and to generate reactions/ideas, not as part of the structured presentation of the basics of the topic.

Finally, you will prepare for and write a midterm exam and a final exam. You should expect the final exam to take place on the date set by the University Registrar. You can learn this date from the University’s online Exam Schedule, after it is set.

4 Grading and evaluation

I will assign course grades according to U.D. standards and Finance Department norms. Grades will be based on a midterm exam (25 percent); a comprehensive final exam (30 percent); prep question assignments (20 percent), class presentations and discussion-leadership (20 percent); and my subjective
assessment of your preparation for, attendance at, and contribution to the class process (5 percent).

If you miss the midterm exam, the final exam will count more to compensate. The final exam is cumulative.

The prep question and presentation/discussion leadership assignments are a major grade-weight, so you should expect them to be a serious and ongoing effort. Prep question assignments may be completed in teams of two students (no more than two). Presentation/discussion leadership work will be done in teams of four (or at most five). For work that you do in a team, I will ask all team members about the relative contribution. I will take these team contribution ratings into account for the course grades. You can choose your own Prep Q partner. The presentation/discussion leadership teams will be assigned randomly by me, to maximize the chance that you build some new relationships during the course.

I expect every student to attend (almost) every class, and will consider this in my subjective assessment. I expect students to participate in the online discussions, and will consider this in my subjective assessment. While the percentage weight for my personal evaluation is small, keep in mind that earning or losing 5 points on this count can make a grade-levels difference—so do be sure to take attendance and professionalism seriously.

I have a long history of reasonable grades for fully-engaged students. The main thing in my courses is to try hard and try thoughtfully—then things tend to work out. Check with prior year’s students if you are not sure!

5 Communications

I encourage you to establish a dialog with me on the topics of our class.

My office is 307B Purnell Hall, where the phone is +1.302.831.6598. For voicemail, it’s best to use +1.302.635.0966 or skype to paul_laux. Those come to my computer, which I monitor more closely than the telephone. My cell phone is +1.302.437.6955, a number you should use only if you need to reach me urgently.

That’s a lot of numbers. Want just one? Use +1.302.635.0966.

I will hold office hours from 2:00 to 3:30 PM on Mondays and Wednesdays. Please feel free to work out other meetings with me as needed. I’m also be happy to hold occasional optional review or extension sessions.

To help me be sure that materials you turn in are handled efficiently,
I have established a Canvas Learning Management System (Canvas LMS) site for our course. PLEASE use this for all assignment turn-ins and for routine class email communication with me. Please use my personal email address only for non-class or personal matters. Also use Canvas for all routine public questions about course mechanics—our other online tool, Piazza, is only for the team online discussion assignment. Our Canvas LMS site is at https://udel.instructure.com/courses/968764.

Canvas also serves as an online repository for many of our course materials and announcements. Canvas is the organizational backbone of our course. Please watch for this information routinely during our course.

6 Course materials

Readings will mostly be available at no cost to you. I will bring copies of our main reading to class each week (unless the Finance Department informs me that the cost has become too high and asks me to stop). I will definitely post most items on Canvas LMS, and you can always read them there. In some cases, this will not be possible due to copyright rules.

You will need to buy or borrow some chapters from a leading introduction to academic finance:


This book was used in the Fall 2012 section of FINC870, so lots of your colleagues have a copy. Probably you do also.

7 Tentative reading list and schedule

This is a “papers” course covering fundamental topics in financial markets and corporate finance. Most of the papers are chosen to highlight an important contribution to finance knowledge or methodology. Many of these papers have stood the test of time and tell us about the foundations of financial economics, but there are also some newer ones to provide a sense for where the field has been going.

Below is a list of papers and a tentative schedule for coverage. Some adjustments to the reading list and the dates are inevitable as we go along.
The purpose is to give you sense for our course rather than to promise on all the details! Also note the following additional important points.

Sometimes an article covered in its entirety, sometimes for its introduction, and sometimes for some specific points it develops, and sometimes as the topic of a student presentation. Thus, as we go along (note: not in this reading list!), I will designate articles as $R$, $I$, $P$, or $S$: Read, Introduction, Points, or Share. Read means Read it all. Intro means read the Intro. Points mean I use the article to make specific Points in class, and you are responsible only for the Points. Share means the article is the topic of a student Sharing presentation. Finance RIPS! I will also label some additional articles as Fun, which means that they may be fun or interesting to look at and that I mention them in class in some way, but they are not testable material.

Articles on in-the-markets topics are chosen knowing that some foundations have been covered in FINC870. Articles on in-the-firm (corporate finance) topics are chosen knowing that foundations on these topics were not part of the FINC870 syllabus. You will see more start-up or from-scratch coverage of topics in the later part of the course.

A special note about the Sharing articles: These tend to be of a different nature than the articles I use in lectures. Sharing articles are chosen for discussion-generation, and to stretch your critical thinking. They are generally from practitioner journals, and often reflect opinions or applications. Relative to articles in other classes, there is a higher chance of controversy—or even incorrectness.

Fourth, in addition to these scientific readings—and often not shown in the reading list below—I will often provide you with press articles, notes, or presentation slides. These are part of the testable material for this course. Note well, for this is a very significant part of your reading and study material.
7.1 Motivation & Orientation: What is the field of finance and how does it learn?

• Course Introduction: How can I get ready to think this way?
  - Chapters 1, 2, and 3 of Grinblatt, M. and S. Titman, *Financial Markets and Corporate Strategy* (Irwin McGraw-Hill) 2003. This is a brief introduction to finance as a refresher or jump-start on language, instruments, and markets. Read this if you did not have FINC870.

• What’s at the core of finance thinking?

• Can you predict the stock market?

• Should you buy stocks or bonds?

• Article for discussion leader and presentation team
7.2 Market Efficiency: Can you understand price based on greed?

- What is the market efficiency principle, and why might it be important? [February 19]

- How to assess efficiency, and how to interpret the evidence? Can you trade on this? [February 2, 26, & 28]

- Do supply and demand matter after all?


• Does even geography matter? Why? What should you do about it?


• Market efficiency: Topic wrap-up


• Articles for discussion leader and presentation teams


### 7.3 Asset pricing foundations: Can you understand price based on fear?

- What are the implications of time and state risk trade-offs for investing and pricing? How cash you think about rational asset pricing most broadly?

    - * This should be review material for both Master/Ph.D. Economics and Master in Finance students, and will not be covered in class. It is covered with a Teaching Note only (not in class discussion) as orientation reading. It will not be tested, but may be helpful to help you understand other material in this section.

    - * This material will be covered with a Teaching Note rather than a direct reading of the chapter.


- What are some applications of the fundamental asset pricing foundations? How can I make money with this? [March 12]


**Foundations: Portfolio Theory**

– Modern Portfolio Theory (Teaching Note).
  * The above should be review material for Master in Finance students. It may be new for Master/Ph.D. Econ students. I will provide an audio slide show to present this material, to economize on class time and overlap. It is considered pre-requisite material. I will test it just enough to provide an incentive to review.


**Foundations: Equilibrium theory (CAPM) and (no-)arbitrage theory (APT)**

– Capital Asset Pricing Model (Teaching Note).
  * This should be review material for Master in Finance students. It may be new for Master/Ph.D. Econ students. I will provide an audio slide show to present this material, to economize on class time and overlap. It is considered pre-requisite material. I will test it just enough to provide an incentive to review.


**Articles for discussion leader and presentation teams**


### 7.4 Risk and Return: What’s a good practical benchmark for judging investment performance?

• How do risk factors matter for the cross section of returns?


• Articles for discussion leader and presentation teams
  
  
  

7.5 Student Presentations

• We will have time for student presentations as part of our preparation for the midterm exam.

7.6 Midterm Exam

• The midterm will occur on the first class day after Spring Break.

7.7 (Just a taste of) Market microstructure

• What’s behind the transactions costs of stocks?


• How does liquidity matter for stock prices?


• Articles for discussion leader and presentation teams


7.8 How does information & opacity matter for corporate outcomes? How are the in-the-firm and the in-the-market related?

• Opacity and corporations


• How is trading important? (Just one reason, to get you started...)


7.9 Capital Structure

• Classical reasoning and static tradeoff theory. Should we expect firms to shoot for a stable or target financing mix?


  * There will be a set of Teaching Notes corresponding to this topic, which are a core part of the reading.


• Pecking order and other theories. Should we expect a wandering funding mix? Can firms take advantage of the markets?


• What funding mix do firms choose, and how?
  
  
  
  
  
  

• Articles for discussion leader and presentation teams
  
  
  
7.10 Security offerings

• How do offerings happen?
  
  

• What do firms do about financing?
  
  
  

• Articles for discussion leader and presentation teams
  
  
  
  
7.11 Student presentations 2

- We will have time for the second round of student presentations as part of our preparation process for the final exam

7.12 Final exam

- The final exam will take place on the date set by the U.D. Registrar. No one may take the exam early.