

Econ 133: Security Markets and Financial Institutions (online)

Summer 2021

Last updated: 6/16/2021

Instructor: Kai Pommerenke, Ph.D., CFA (kpommere@ucsc.edu)
Office hours: Wednesdays 2:00-4:00pm, or by appointment, via Zoom (see Canvas)
TA: Mariana Bessa (mbessari@ucsc.edu)
Sections: See Canvas for times and links to join
Canvas: <https://canvas.ucsc.edu/courses/44570>

Course objectives and methodology

An examination of all major financial markets: equities, bonds, options, forwards and futures. Uses modern financial theory, including asset pricing models such as the CAPM. This course won't teach you how to get rich quickly, but it might teach you how to get rich slowly.

The course will be taught as an online course: you read the textbook and lecture notes and watch the posted videos, then apply your knowledge through numerical and Excel problem sets, essays and discussions.

Since [research](#) shows that learning by doing has a six times better outcome than learning by watching or reading, you'll be working on a lot of problems. You will also discuss financial concepts in sections.

Course requirements and evaluation

- Participation (sections, Piazza and Canvas discussions) 20%
- Essays (due Wednesdays by 11:59pm, in groups of two students) 20%
- Problem sets 30%
 - a. Numerical problem sets (due Thursdays by 11:59pm)
 - b. Excel problem sets (due Fridays by 11:59pm)
- Final exam (Thursday, 7/22, any 2 hours between 8am and 8pm PDT) 20%
- Excel capstone (Friday, 7/23, any 2 hours between 8am and 8pm PDT) 10%

Participation includes sections, Piazza and Canvas discussions:

- Sections are online through Zoom on Mondays and Tuesdays. You need to register for and participate in one section per week (you're allowed to miss one section). Students will be called on to read their draft answer to the essay questions and will receive feedback from the TA. Only registered students who read out their draft answer will get participation credit.
- You must make at least 5 contributions to Piazza, i.e., post a question, note, answer, follow-up or comment about course content, not logistics, by July 23. You can only get 1 contribution point per week, i.e., don't wait until the last week to contribute. When asking a question, show what you have already tried, or your draft answer for an essay question.
- You will take part in several Canvas discussions: you submit an original post and reply to two posts by other students for each discussion (your lowest score will be dropped).

The essays test your understanding of financial concepts. Your lowest score will be dropped. Essay topics will be revealed on Wednesday mornings, so that all essay questions are considered equally in sections. You'll work on the essays with another student, assigned by me. I recommend that you start a Google Doc and work together at the same time. A late penalty of 2% will apply for each day that your work is late.

Practice problems sets are optional. You can request to see the solution and tackle each problem again with different numbers. The practice problem sets are good preparation for the required homework assignments.

The problem set with the lowest percentage score will be dropped. You have 10 attempts for numerical and Excel problems, and 4 attempts for multiple choice problems. Excel problems require you to work with Excel or Google Sheets. You can request to see the solution to numerical and Excel problems, but will lose two points every time you do so. You have 3 trials for each problem set: once you've completed

all problems, you can reset the problem sets and start again from scratch. A late penalty of 2% will apply for each day that your work is late. Once you've finished a problem, you can practice it again without affecting your recorded score.

The Excel capstone assignment is accessed through Canvas. It is open book and unproctored. You'll have two hours to complete it, measured from the time you start. Warning: Your time will start as soon as you click on the problem. **Do not click** until you're ready to complete the capstone assignment.

The final exam will contain essay questions from the study guide and numerical problems similar to the homework problems. You only have one attempt and cannot request to see the solution. It will be online through Canvas and monitored by ProctorU. ProctorU is a live online proctoring service that allows you to take your exam from home. The service is available 24/7, however, you will need to schedule your proctoring session at least 72 hours in advance to avoid any on-demand scheduling fees. To create a ProctorU account and make a reservation, visit go.proctoru.com. In order to use the service, you will need to have a high-speed internet connection, a webcam (internal or external), a Windows or Apple operating system, and a government-issued photo ID. ProctorU recommends that you visit proctoru.com/testitout prior to your proctoring session to test your equipment. You should expect the startup process with the proctor to take about 10-15 minutes on the day of the final exam. However, this time will not affect your exam time. More info [here](#).

Grades: D: 60%, C: 73%, B-: 80%, A-: 90%. **There will be no curve and no extra credit**, with one exception: if at least 80% of students submit a SETS evaluation at the end of the quarter, everybody will get a 2% bonus. You need to communicate any concerns about **passing the course** as early as possible, not at the end when nothing can be done anymore. In finance terms: I don't write free options!

If you want a recommendation letter, you need to get an A- in two of my courses, actively contribute to Piazza discussions and come to office hours.

How to succeed

- Buy the textbook (paper or electronic)
- Read the assigned readings and watch the videos
- Start all assignments earlier
- Ask for help and clarification: In section and office hours, and on Piazza

Try to **get at least 90% of points on the numerical and Excel problem sets**, as you're likely to do less well on the essays and the exam.

Required readings and resources

- Essentials of Investments (8th ed. or newer), by Bodie, Kane & Marcus; McGraw-Hill (\$5-250)
- Acepi: access through Canvas for problem sets (disclosure: I'm a co-founder) (\$9.95)
- ProctorU: proctoring service for final exam (needs appointment!) (free)
- Canvas: the platform for the delivery of this course (free)
- Piazza: use this for all Q&A instead of email (except personal issues), even anonymously (free)
- Zoom (for online office hours and sections) (free)

If you qualify for classroom accommodations because of a disability, please submit your authorization letter from the DRC (831-459-2089 and drc@ucsc.edu) to me within the first two weeks.

Academic integrity

You should work with other students on the problem sets and essays. However, every group has to submit their own essay. Copying another group's work or submitting answers from the internet will result in a failing grade and sanctions according to UCSC's [Academic Misconduct Policy](#).

Schedule

Week start date	Topic	Assigned readings	Due dates		
			D/E (W)	PS (Th)	Excel (F)
6/20	Fin. assets, markets, institutions	BKM 1.1-1.6, 2-4: Asset classes, markets, trading, mutual funds	6/23 ^d	6/24	-
	Excel	Excel Primer, You suck at Excel	-	-	-
	Time value of money	Ivo Welch: 2.4-2.5, 3.1-3.3	6/23 ^e	6/24	6/25
6/27	Risk and return	BKM 5.1-5.4: Risk and return	6/30 ^d	7/1	7/2
	Portfolio management	BKM 5.5: Asset allocation; BKM 6.1-6.4: Diversification	6/30 ^e	7/1	7/2
7/4	Index models, CAPM	BKM 6.5 (first 4 pages): index model, 7.1-7.3: CAPM	7/7 ^d	7/8	7/9
	Bonds	BKM 10.1-10.5: Bond prices, yields	7/7 ^e	7/8	7/9
7/11	Stocks	BKM 13.1-13.4: Equity valuation	7/14 ^d	7/15	7/16
	Options and futures	BKM 15.1-2: Option markets; BKM: 17.1-4: Futures	7/14 ^e	7/15	7/16
7/18	Efficient markets	BKM 8: Efficient markets	7/21 ^d	7/22	-
	Personal finance	Arithmetic of active management , How millennials can get rich slowly	7/21 ^e	7/22 (final)	7/23 (capst.)

D/E: Discussion (^d) or essay (^e) (both on Canvas)

PS: Numerical problem set (on Accepi through Canvas)

Excel: Excel problem set (on Accepi through Canvas)