



EMBA 703
Financial Markets
Fall 2016

Instructor: Dr. Derek Horstmeyer

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Course Website: Blackboard

Office Hours: Thurs 9:00 – 10:00 and by appointment

Course Objectives

This course is both a practical and a concept-oriented treatment of the workings of today's financial markets and institutions. It starts with an introduction of the fundamentals of financial markets and proceeds with a detailed review of the central banking system, the different financial markets, financial institutions, and the management of the different types of risks that these institutions face. These issues are presented within a unified framework intended to encourage critical thinking and problem-solving skills in students.

Prerequisites

Degree status and completion of the EMBA requirements, or permission of the instructor. The course will also require knowledge of Microsoft Excel and use of a financial calculator. If you do not know whether you meet the requirement, you should notify the instructor.

Course Textbook and Resources

Required Textbook: Anthony Saunders and Marcia Cornett, 2016, *Financial Markets and Institutions*, 6th ed., (McGraw-Hill/Irwin). In addition, articles posted by the Fed and other institutions will be available through Blackboard, so check regularly.

An electronic version of the text is available at the following websites, but it is recommended that you go with the hardcopy version above since you will have to pay out of pocket for the online version:

<https://connect.mheducation.com/class/d-horstmeyer-fall-2016>

Grades

My intention is to grade generously, but fair. I will, however, not hesitate to give low grades to those who clearly did not put in a sufficient amount of effort.

Your final grade will be based on:

Class Participation/Attendance	25%
Cases (4 total)	40%
Final Exam (See GMU's Schedule)	35%

Grade distribution is based on a standard 10-point scale: 92-100 = A; 90-92 = A-; 88-90 = B+; 82-88 = B; 80-82 = B-, etc. All grades are calculated straight from the raw points allotted from each assignment.

Cases

Cases are posted in the corresponding week that they are due (see bottom of the syllabus). All cases are to be done individually and are due the seventh day of the corresponding week that they are assigned. The specifics of each case are noted in the case assignment, located on Blackboard.

Appeal of Grading

If you wish your answer to a question to be regarded, first submit a copy of your answer to the question and a written explanation of why you believe that the grading is incorrect. You must turn in this material within one week after the graded work is returned. In general, the entire exam will be checked for grading errors, and correcting these could either raise or lower the overall score.

University Office of Disability Services

If you are a student with a disability and you need academic accommodations, please see me and contact the Disability Resource Center at (703) 993-2474. All academic accommodations must be arranged through the DRC.

Academic Misconduct

Academic misconduct causes failing the course and triggers quite unpleasant university-mandated procedures which result in further sanctions. Faculty Rule 2.11.5 (Faculty Responsibility under the Honor Code) requires alleged misconduct to be reported to the department and the Honor Committee. So follow the GMU honor code at all times and don't even think about cheating!

Tentative Course Outline

Each class period includes required readings from the textbook Saunders and Cornett, 2016, *Financial Markets and Institutions* (SC). Except for the dates of the exams, the dates in the course schedule are approximate and could be subject to change.

Course Schedule

(Unit 1) Monday, August 15- Sunday, August 21

Overview of Financial Markets & Interest Rates

Reading:

- Chapter 1, Introduction and Overview of Financial Markets
- Chapter 2, Determinants of Interest Rates

Discussion thread questions:

1. When the demand for loanable funds goes up, what happens to interest rates? What can cause demand to go up?
 2. When the supply for loanable funds goes up, what happens to interest rates? What can cause supply to shift up?
 3. What are the main factors that determine security-specific interest rates (i.e. types of risks)?
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(Unit 2) Monday, August 22-Sunday, August 28

Interest Rates and Valuation

Reading:

- Chapter 3, Interest Rates and Securities Valuation

Discussion thread questions:

1. What are the main features of a bond? What factors determine its price?
 2. When does a bond sell at a premium to par and when does it sell at a discount?
 3. In the simplest sense, what are the main factors which determine a stock's price?
 4. Which bonds are most sensitive to interest rate changes?
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(Unit --) Monday, August 29-Sunday, September 4

OFF

(Unit 3) Monday, September 5-Sunday, September 11

The Federal Reserve System

Reading:

- Chapter 4, The Federal Reserve System, Monetary Policy, and Interest Rates
- Bernanke's Federal Reserve Slides

Discussion thread questions:

1. How does the Federal Reserve carry out monetary policy? What are the three levers which they can pull on to shift? What is the Fed Funds Rate?
2. During normal times, the Fed concentrates its buying/selling activity on bonds of what maturity type - short or long?
3. If the Fed sees the economy lagging and wishes to implement an expansionary monetary policy, what steps can they take to do so?

Case 1: Foreign Ownership of U.S. Treasury Securities. Due September 11 at 11:59pm

(Unit --) Monday, September 12-Sunday, September 18

OFF

(Unit 4) Monday, September 19-Sunday, September 25

Markets and the Euro Crisis

Reading:

- Chapter 5 and 6, Money Markets and Bond Markets (skim)
- Chapter 8, The Stock Market
- Euro Crisis (video)

Discussion thread questions:

1. Which rates of return are more volatile, money market rates or capital market rates?
2. How is equity structured differently than a bond (i.e. in terms of liability, voting, etc)?
2. Why would you list your firm on the NASDAQ versus the NYSE?

Case 2: The Euro Zone and the Sovereign Debt Crisis. Due September 25 at 11:59pm

(Unit 5) Monday, September 26-Sunday, October 2

Derivative Securities Markets

Reading:

- Chapter 10, Derivative Securities Markets

Discussion thread questions:

1. What is the difference between a forward and a futures contract?
 2. How can a call option be used to hedge risk? How can it be used to speculate or amplify risk?
 3. What industries use futures/forwards to lock in prices far in advance?
 3. What factors cause the value of a call option to increase?
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(Unit --) Monday, October 3-Sunday, October 9

OFF

(Unit 6) Monday, October 10-Sunday, October 16

The Financial Crisis of 2008

Reading:

- Videos on the response to the crisis

Discussion thread questions:

1. What ultimately brought Bear Stearns down? Compare this to other runs on banks in the past. How does it differ?
2. Did the Fed satisfy their job of being a 'lender of last resort'? What steps did they take to try and act in this manner?
3. What role did derivatives play in this crisis (think AIG and their role in 'insurance')?

Case 3: The Weekend That Changed Wall Street. Due October 16 at 11:59pm.

(Unit 7) Monday, October 17-Sunday, October 23

The Federal Reserve's Response Since 2008

Reading:

- 2008 and Forward (slides)

Discussion thread questions:

1. What has the Fed been doing since 2008 to shore up markets?
2. Describe quantitative easing? What effect does it have on the yield curve?
3. What are the consequences of the Dodd-Frank Act for 'Too Big to Fail'?

Case 4: JP Morgan and the Dodd-Frank Act. Due October 23 at 11:59pm.

FINAL EXAM

Posted on Blackboard October 20 – must be turned in to me by **October 22 (11:59pm)**

EMBA 703
Course Calendar

Key

(CLASS): Discussion with the Entire Class

(ONE-ON-ONE): Discussion with your Activity Partner

Green: Denotes Deliverable

Red: Denotes Faculty Action or Synchronous Class Session

	Mon – Day 1	Tue – Day 2	Wed – Day 3	Thu – Day 4	Fri – Day 5	Sat – Day 6	Sun – Day 7
UNIT 1 [Aug 15 -21]	Read Chapters 1 and 2			BB Collaborate (9pm)			
UNIT 2 [Aug 22-28]	Read Chapter 3			BB Collaborate (9pm)			
OFF UNIT [Aug 29 – Sept 4]							
UNIT 3 [Sept 5-11]	Read Chapter 4 (Bernanke Slides Optional)			BB Collaborate (9pm)			CASE 1 DUE
OFF UNIT [Sept 12-18]							
UNIT 4 [Sept 19-25]	Read Chapters 5, 6 and 8. Watch Euro Crisis Video			BB Collaborate (9pm)			CASE 2 DUE
UNIT 5 [Sept 26 – Oct 2]	Read Chapter 10			BB Collaborate (9pm)			
OFF UNIT [Oct 3-9]							
UNIT 6 [Oct 10-16]	Watch 2008 Crisis Videos			BB Collaborate (9pm)			CASE 3 DUE
UNIT 7 [Oct 17-23]	Slides for ‘2008 and Forward’			FINAL EXAM POSTED 20th – DUE 22nd!			CASE 4 DUE

Student Learning Goals

1. **Teaming and Leading:** Demonstrate the team leadership and interpersonal skills needed to form, lead, and work effectively on diverse organizational teams.
2. **Knowledge of Functional Business Disciplines:** Demonstrate knowledge of all core functional areas of business and an ability to integrate them into a meaningful firm level perspective.
3. **Analytical Decision Making:** Demonstrate the ability to analyze uncertain complex management situations using appropriate tools, techniques and information systems for decision-making.
4. **Communication:** Demonstrate written, oral and presentations skills necessary to explain problems and solutions effectively and persuasively.
5. **Ethics and Responsibility:** Demonstrate knowledge of ethical decision making considerations, corporate social responsibility and sustainability practices.
6. **Global Awareness:** Identify relevant economic, political, and social factors that impact business conducted both within and across national boundaries.

SCHOOL OF BUSINESS STANDARDS OF BEHAVIOR: The mission of the School of Business at George Mason University is to create and deliver high quality educational programs and research. Students, faculty, staff, and alumni who participate in these educational programs contribute to the well-being of society. High quality educational programs require an environment of trust and mutual respect, free expression and inquiry, and a commitment to truth, excellence, and lifelong learning. Students, program participants, faculty, staff, and alumni accept these principles when they join the School of Business community. In doing so, they agree to abide by the following standards of behavior:

- **Respect** for the rights, differences, and dignity of others
- **Honesty and integrity** in dealing with all members of the community
- **Accountability** for personal behavior

Integrity is an essential ingredient of a successful learning community. Ethical standards of behavior help promote a safe and productive community environment, and ensure every member the opportunity to pursue excellence. School of Business can and should be a living model of these behavioral standards. To this end, community members have a personal responsibility to integrate these standards into every aspect of their experience at the School of Business. Through our personal commitment to these Community Standards of Behavior, we can create an environment in which all can achieve their full potential.

School of Business Recommendations for Honor Code Violations

Adopted by the faculty May 2012

Graduate Students

Type of Violation	First Offense	Second Offense
Plagiarism—failure to cite/attribute sources	An F in the class; multiple visits to the Writing Center required; and Academic Integrity Seminar Attendance	An F in the class; multiple visits to the Writing Center required; Academic Integrity Seminar Attendance; dismissal from the program; and possible suspension or expulsion
Plagiarism—representing someone else's work as the student's own	An F in the class; multiple visits to the Writing Center required; and Academic Integrity Seminar Attendance	An F in the class; multiple visits to the Writing Center required; Academic Integrity Seminar Attendance (at times of hearing and reenrollment if relevant); dismissal from the program; and possible suspension or expulsion
Cheating on an assignment, homework, class participation, or minor project	An F in the class; and Academic Integrity Seminar Attendance	Expulsion
Cheating on a major project, test, or exam	An F in the class; Academic Integrity Seminar Attendance; and at least one semester suspension	Expulsion
Egregious Violation [e.g., stealing an exam; submitting coursework from another class as original work; lying to an employer about academic performance]	Dismissal from the program; at least one year suspension; and attendance at Academic Integrity Seminar at the time of hearing and just prior to reenrollment	Expulsion