Finance 590: Financial Economics
Part I: Why Markets Work

SYLLABUS

Fall 2005
Mon/Wed 1:00-2:20
Office hours: Mon/Wed 3:00 – 4:00
http://www.business.uiuc.edu/jbrown/fin590.htm

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NOTE: The material contained in this syllabus is relevant for the first half of Fin 590 FE, taught by Prof. Jeff Brown, which runs from August 24, 2005 through October 12, 2005. The second half of the course, which will be taught by Prof. Kahn, will have its own syllabus and course outline that you will be provided with later in the semester.

TEXT: You will not be assigned problems from the text, nor will I ask you about material that was not covered in lectures. Therefore, arguably any good micro text will work for this course. However, in order to provide some structure to the course, I do recommend that you use one of the following two texts by Walter Nicholson:

Intermediate Microeconomics and Its Application (designated IM)
Microeconomic Theory: Basic Principles and Extensions (designated MT)

The IM book is written using a lower level of mathematics than we will use in this course. It is, however, generally well written and provides good intuitive explanations of material. The MT text, on the other hand, uses a somewhat higher level of mathematics than you will need in this course.

Lecture outlines, problem sets and solutions, and supplemental readings and handouts will be posted on the course web site (URL listed above). Course announcements will also be posted there. Please check the course web site regularly.

PRE-REQUISITES

This is a required course for students in the MSF program. A limited number of Masters students from other programs may be admitted with consent of the instructor.

COURSE OBJECTIVES

Microeconomics is the intellectual foundation for the field of finance. This course is designed to give you a strong understanding of the theory and logic of microeconomics. We will discuss the standard models of how consumers and producers behave, and the implications of these models for resource allocation and market efficiency. We will also discuss the basic
tools of microeconomics, including optimization, comparative statics and equilibrium. Applications to finance will be highlighted throughout the course.

The second half of the course, taught by Prof. Kahn, will focus on ways in which markets can fail. Prof. Kahn will also provide limited coverage of key macro-economic concepts.

**ADMINISTRATIVE INFORMATION**

1. GRADING

You will receive only one overall grade for Fin 590 FE on your UIUC transcript. Half of your overall course grade will be based on the first half of the course, and thus assigned by Prof. Brown. The remaining 50% will be determined by Prof. Kahn based on your performance in the second half of the course. The following information pertains ONLY to the first half of the course.

Points for the first half of the semester will be allocated as follows:

<table>
<thead>
<tr>
<th>% of First Half Grade</th>
<th>(% of Overall Course Grade)</th>
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<tbody>
<tr>
<td>Assignments / Problem Sets</td>
<td>20%</td>
</tr>
<tr>
<td>Class attendance and Participation</td>
<td>20%</td>
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<tr>
<td>Exam on Wednesday October 12</td>
<td>60%</td>
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The plus / minus system will be used when assigning final course grades.

2. ASSIGNMENTS / PROBLEM SETS

Periodically during the semester you will be given problems to work on outside of class. The problems on these assignments will sometimes be more difficult than the examples we have done in class, and will also sometimes be more difficult than the types of questions you will likely see on the exam. This is done intentionally to challenge you to think about the course material at a deeper level.

You are strongly encouraged to work on the three problem sets with your pre-assigned MSF study groups. (Those students not assigned to a group should let Prof. Brown know right away.) However, you must write up your answers independently and turn in separate work. While numerical solutions may look identical for individuals in the same study group, non-numerical answers should not be identical, i.e., you should write your answers in your own words.

IMPORTANT NOTE: Problem sets are due EITHER a) in class at the beginning of class, OR b) in my email in-box or my faculty mail-box in 328 DKH by 12:30 PM on due date. No late problem sets will be accepted for any reason!
3. EXAM

There will be an examination covering the first 7 weeks of material given in-class on Wednesday October 12. The exam is worth 60% of your first half course grade (and thus 30% of your final grade). *Absences from this exam must be excused, and will be dealt with according to University policy.*

4. CLASS PARTICIPATION

Regular class attendance is necessary to receive a high participation grade, but it is not sufficient. Active class participation via discussion, questions, and contributions of examples from current events is expected.

5. ACADEMIC INTEGRITY

*From the University statement on your obligation to maintain academic integrity:* "If you engage in an act of academic dishonesty, you become liable to severe disciplinary action. Such acts include cheating; falsification or invention of any information or citation in an academic endeavor; helping or attempting to help others commit academic infractions; plagiarism; offering bribes, favors, or threats; academic interference; computer-related infractions; and failure to comply with research regulations."

Rule 33 of the *Code of Policies and Regulations Applying to All Students* gives complete details of rules governing academic integrity for all students. You are responsible for knowing and abiding by these rules.

6. DISABILITIES

To ensure that disability-related concerns are properly addressed from the beginning, students with disabilities who require reasonable accommodations to participate in this class are asked to see me as soon as possible.

7. OFFICE HOURS

Office hours will be posted on the course web site. These office hours are for your benefit, so feel free to use them! No appointment is necessary during office hours. If you cannot come to these office hours, please make an appointment for another time by sending me an email.

8. OPTIONAL REVIEW SESSIONS

In addition to regular lectures, there will be *occasional and optional* Friday review sessions, led by one of the Finance Ph.D. students. I will ask the teaching assistant to review basic material from the course, and then answer questions that you may have. Details on the time and location will be announced in class.