

## Syllabus for ECO358H1S. Financial Economics I

ECO358 is an introduction to asset pricing and portfolio theory. Students will learn the basic ideas and tools in financial economics, such as the time value of money, the role of financial markets, investment and security valuation, financial risk, the Capital Asset Pricing Model, Arbitrage Pricing Theory, basic derivatives, term structure of interest rates, and market efficiency. Students are required to follow current events.

### Course Information

Class Times: **Tuesdays. Section L0101: 3-5pm. Section L5101: 6–8pm.**

*See exceptions to class times below.*

Class Location: Section L0101 (day): UC 179. Section L5101 (evening): LM 161.

Term Tests: In-class on October 08 and November 19.

Section L0101: 3-5pm. **Section L5101: 5–7pm** (note the time!)

Test Location: TBA (different from your lecture rooms!)

Instructor: Professor Malinova.

My office: Max Gluskin House 211 (GE 211), 150 St. George Street.

Phone: 416 978 5283.

Email: [katya.malinova@utoronto.ca](mailto:katya.malinova@utoronto.ca)

TAs: Ding Ding ([d.ding@utoronto.ca](mailto:d.ding@utoronto.ca))

Michael Brolley ([michael.brolley@utoronto.ca](mailto:michael.brolley@utoronto.ca))

Both TAs are PhD students in financial economics

Office Hours: Tuesdays 1-2pm (Michael Brolley, room TBA)

Thursdays 11-12pm (Professor Malinova, GE 211)

Fridays 10-11am (Ding Ding, GE 228).

*Please check portal for the office hour schedule during the weeks of your term tests and during the study and exam period.*

Course Webpage: <http://portal.utoronto.ca>

Exclusions: ACT349H1,RSM332H1.

Prerequisites: ECO200Y1/ECO204Y1/ECO206Y1,  
ECO220Y1/ECO227Y1/(STA220H1,STA255H1)/(STA257H1,STA261H1).

## Exceptions to Class and OH Times

There will be the following exceptions to class times above:

1. The first lecture (September 10, 2013) will take place at 2-4pm and 5-7pm.
2. Your term tests will take place 3-5pm and 5-7pm. Locations are TBA.
3. The TAs will have occasional in-class tutorials/review sessions 2-3 and 5-6pm (in particular, in the weeks prior to the midterm tests). Further details will be announced on the portal.
4. Regular office hours are held in term (through December 03), except for the weeks of your term tests. Office hours during the weeks of your term tests and during the study and exam period will be posted on the course webpage.

## Tests, Exams, and Grade Composition

There will be three exams: two in-class midterm tests (2 hour-long 3-5pm and 5-7pm; check the course webpage for the test location) and a 3-hour final. The weights are as follows:

- Midterm 1: 30%
- Midterm 2: 30%
- Final: 40%

If your score on the final is better than your worst midterm score **and** your worst midterm score is above 30%, then your worst midterm will not count and its weight will be automatically shifted towards the final. Specifically, provided your worst midterm score is above 30%, your course-grade is determined as follows

$$\begin{aligned} & 40\% \times \text{final} \\ + & 30\% \times \max\{\text{midterm I}, \text{midterm II}\} \\ + & 30\% \times \max\{\text{final}, \min\{\text{midterm I}, \text{midterm II}\}\}. \end{aligned}$$

If both of your midterm scores are below 30% or if your score on the final exam is below that of your worst midterm, then no weight redistribution will occur.

**Appeals.** If you appeal to re-grade one of the exam questions, we will re-grade the *entire* exam. This may lead to a lower or higher overall grade. Your complaint has to be in writing, it must be submitted within one month from the day that graded midterms

become available for pick-up, and it must explain why you believe grading to be incorrect. These conditions do not apply to clerical errors (i.e. adding your scores incorrectly); if a clerical error occurs, please notify Professor Malinova as soon as possible.

## Midterm Tests

**Dates:** The midterms will be written during class. The first midterm will take place on October 08 (in class, **3-5pm and 5-7pm**), the second takes place on November 19 (again, in class, **3-5pm and 5-7pm**). Exam room locations will be announced in class and on the course webpage. **Important: the test locations will differ from your regular classroom locations! Note also the times!**

**Term Test Coverage:** If a concept, skill, or topic is addressed in lectures, readings, or on Blackboard, then it is testable. Additionally, you are required to follow current events.

## Missing a Midterm Test:

Midterms are crucial components of our course, and they are compulsory. No make-up tests are offered for missed midterms, and a missed midterm counts as 0.

When you miss a midterm for legitimate reasons, I will shift the weight of the missed midterm to the final exam. To receive this accommodation, (a) you will be required to complete a make-up midterm test at home and (b) you must obtain a score of 30% on this take-home test. Your take-home test will be reviewed to assess whether you obtain 30%, but it will not be graded further.

If you miss a midterm, please follow the steps as outlined below.

Step 1: Send an e-mail to Professor Malinova meeting **all** of the following specifications.

- (a) Except for cases of extreme emergencies, your e-mail must be sent **before** the start of the missed test.
- (b) The e-mail is sent from your U of T account (i.e., not gmail, yahoo, etc.).
- (c) Your e-mail concisely explains why you are missing/have missed the test (e.g., it states that you are ill).
- (d) It lists all the other courses that you are currently taking, with the times these courses meet and the names and contact information of your other professors. It identifies all term work with a weight of more than 10% of your course grade (e.g., tests, class attendance, homework assignments) that you have submitted or will submit in other courses during the week of your missed test or it says “no

other term work was submitted and no classes were/will be attended during the week of my missed test.”

- (e) The last sentence is “I understand that it is a punishable academic offense to present false information in support of my request for accommodation for missed term work”.
- (f) The e-mail concludes with your name and student number.

Step 2: You will receive an e-mail from Professor Malinova within 48 hours of your e-mail with a notification of your take-home test time frame (typically, you will be told the earliest possible time for you to pick up the test and the deadline to return in; you will be given at least a 24-hour notice). You will be required to pick up a copy of the test and an academic integrity check-list in person from the Department of Economics. Failure to check your e-mail or to pick up your test in time will not be considered legitimate excuses for not being able to complete the take-home test.

Step 3: Complete the take-home test during your take-home time frame and return it together with a completed academic integrity check-list to the Department of Economics (reception), Max Gluskin House, 150 St. George Street.

- (a) Your take-home term test will be reviewed, but the score will not count toward your course grade beyond the assessment of whether or not you have obtained a score of 30%.
- (b) If you receive a score of 30% or higher on the take-home test, then the weight of the missed term test will be shifted to the final. If you receive a score of 29% or lower, then your missed term test will be assigned a score of 0.

## Problem Sets

There will be no graded problem sets, however sample (“practice”) problems will be made available to you. We will additionally provide answers and hints to *select* (i.e., not all!) problems. Full length solutions will not be provided, but we are happy to discuss them during our office hours. Please keep in mind that while these problems are helpful to check whether you understand the concepts taught in lecture, working through them is not sufficient to gain deep understanding of the material that is required in this course.

## Textbook:

*Investments*, 7th Canadian Edition, by Bodie, Kane, Marcus, Perrakis, and Ryan, 2011, McGraw-Hill. ISBN: 0-07-007170-5 (hereafter: *Bodie*). If you use a different edition, be aware that you will be responsible for reconciling the differences. If you prefer, the book is also available in a publisher-endorsed digital format on coursesmart.com; see the Blackboard website for the appropriate link.

## Tentative Course Structure

Specific literature and book chapter references will be posted on the course website. Please check the webpage regularly to obtain the most up-to-date course information.

## Course Structure

Note: The references to chapters in Bodie et al. will be updated on Blackboard as the term progresses. Several lectures will be based solely on lecture notes with little or no textbook reference.

**Week 1** Basics of financial markets.

**Week 2** Project valuation under certainty: Net Present Value, Internal Rate of Return.

**Week 3** Bond pricing; the term structure of interest rates.

**Week 4** Choice under Uncertainty, Portfolio Theory I.

**Week 5** Midterm I.

**Week 6** Portfolio Theory II.

**Week 7** CAPM.

**Week 8** Basics of General Equilibrium Theory, No-arbitrage, the Law of One Price.

**Week 9** Single and Multi-Factor Models. Arbitrage Pricing Theory.

**Week 10** Midterm II.

**Week 11** Empirical evidence of market returns. Market efficiency.

**Week 12** Basics of Option Pricing.

## Email Communication

I will use Blackboard to post and to send out announcements. It is imperative that you **update your email-address on ROSI** and *that you register on ROSI with a U-of-T-email-address!*

If you have a question that is not addressed in any of the course materials, please send an e-mail to one of our TAs (Ding Ding at [d.ding@utoronto.ca](mailto:d.ding@utoronto.ca) or Michael Brolley at [michael.brolley@utoronto.ca](mailto:michael.brolley@utoronto.ca)), cc'd to me. Where a question cannot easily or briefly be answered with a reply email (e.g., it requires that we solve a lengthy practice problem prior to responding), we will indicate to you that we will need to chat during the announced office hours.

We aim to reply to legitimate email inquiries from students within 24 hours during the week; e-mails received on Friday night, during the weekend or during a holiday will be filed for reading on the next business day. If you do not receive a reply within 2 working days, please resubmit your question(s).

Each email message must include in the “subject” the course number. In the first few weeks of class, please include your *full name* and your *student number* in your message. Please do NOT send any attachments with your email messages.

## Information about the Blackboard System

Like many other other courses, ECO358 uses Blackboard for its course website. To access the ECO358 website, or any other Blackboard-based course website, go to the UofT portal login page at [portal.utoronto.ca](http://portal.utoronto.ca) and login using your UTORid and Password.

If you experience any problems, please check the Blackboard’s information page for students, located at <http://portalinfo.utoronto.ca/content/information-students>

## Academic Integrity and Respect

Academic integrity is fundamental to learning and scholarship at the University of Toronto. Participating honestly, respectfully, responsibly, and fairly in this academic community ensures that the U of T degree that you earn will be valued as a true indication of your individual academic achievement, and will continue to receive the respect and recognition it deserves.

Familiarize yourself with the University of Toronto’s Code of Behaviour on Academic Matters (<http://www.governingcouncil.utoronto.ca/policies/behaveac.htm>). It is the rule book for academic behaviour at the U of T, and you are expected to know the rules. Potential offences include, but are not limited to:

In take-home make-up tests:

- Obtaining or providing unauthorized assistance on any assignment including
  - working in groups on assignments that are supposed to be individual work,
  - having someone rewrite or add material to your work while editing.
- Lending your work to a classmate who submits it as his/her own without your permission.

On tests and exams:

- Using or possessing any unauthorized aid, including a cell phone.
- Looking at someone else's answers
- Letting someone else look at your answers.
- Misrepresenting your identity.
- Submitting an altered test for re-grading.

Misrepresentation:

- Falsifying or altering any documentation required by the University, including doctors notes.
- Falsifying institutional documents or grades.

To remind you of these expectations, and help you avoid accidental offences, I will ask you to include a signed Academic Integrity Checklist with every take-home test. If you do not include the statement, your work will not be reviewed.

The University of Toronto treats cases of academic misconduct very seriously. All suspected cases of academic dishonesty will be investigated following the procedures outlined in the Code. The consequences for academic misconduct can be severe, including a failure in the course and a notation on your transcript. If you have any questions about what is or is not permitted in this course, please do not hesitate to contact me. If you have questions about appropriate research and citation methods, seek out additional information from me, or from other available campus resources like the U of T Writing Website. If you are experiencing personal challenges that are having an impact on your academic work, please speak to me or seek the advice of your college registrar.

Finally, you are expected to respect your classmates and me. For example, during lecture do not chat, surf the Internet, read the newspaper, sleep, eat nor engage in any other disruptive behaviours.