

ECO 2503H1 L0201
Financial Economics I (MFE)
Fall Term 2017
M 3-4, R 2-4 in GE 100

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Office hours: M 11-12, R 11.30-1.30

Course Description

This course is a primer in asset pricing emphasizing the underlying economic theory and placing some recent empirical results in the context of the theory. We survey the major theories, tools, and results in asset pricing and portfolio choice. The course presents a general framework for pricing (financial) assets, and the economic foundations for how individual preferences impact these prices. The course also covers the role of financial markets in sharing risk in the economy, and presents recent empirical evidence on the determinants of asset returns.

The expectation is that students who successfully complete the course should be able to:

- 1) Apply standard theories that explain asset prices as an equilibrium outcome in financial markets, critically assess the assumptions the theories make, and point out their limitations.
- 2) Explain the most important empirical facts about asset returns and the extent to which the models introduced in the course can successfully account for variation in asset returns.
- 3) Construct portfolios of financial assets and assess their performance.

Evaluation

There are three evaluation components:

1. A midterm (30%)
 - Thursday October 12, 4-7 in BL 205
2. An assignment (30%)
 - First part due by 2.10 on Thursday, September 21
 - Final write-up due by 2.10 on Thursday, November 16
 - Please see the separate document titled “Assignment for ECO2503 MFE, Fall 2017” on Blackboard for further details on content and group allocation
3. A final exam (40%)
 - The exam is cumulative
 - Time and date will be announced on Blackboard (the portal)

The overall grade for the course will be calculated as the weighted average of the three evaluation components with the weights given above. There is one exception to this rule.

Students who

- a) have taken the midterm **and**
- b) did better on the final exam than on the midterm

will have their midterm grade dropped and the 30% weight of the midterm shifted to the final. That is, their overall grade for the course will be calculated from their assignment grade (with a weight of 30%) and their final exam grade (with a weight of 70%).

Permitted examination aids:

1. A simple pocket calculator (no graphic or financial calculators are allowed)

Teaching Assistant

The teaching assistant (TA) for the course is [Daniel Chippin](#). He is responsible for grading midterms and assignments. He will hold office hours after the midterm to address any questions regarding the grading of the midterm. An announcement will be made on Blackboard to inform you of the time and venue of such office hours.

General Policies

Appeals

If you appeal to re-grade one of the midterm, assignment, or exam questions, I will re-grade the entire midterm/assignment/exam. Note that this may (and in the past usually has) lead to a lower overall grade. Your complaint has to be in writing and you must give a detailed outline as to why and where you think that the assessment is inaccurate. An exception to this rule is if you claim that a mistake was made when adding up your grades.

Not handing in an assignment

If you anticipate that you may miss the deadline for an assignment deliverable, you should contact me immediately. Late assignments carry a penalty of 10% per hour.

Practice Problems

In most sets of lecture slides I will include some practice problems. I will also post solutions (or solution outlines) to selected problems. Further, I will post a sample exam and a sample midterm test on Blackboard, along with solutions (or solution outlines). Please contact me during office hours if you have any questions about how to solve practice problems or questions from past exams. No further practice problems will be provided.

Plagiarism

Plagiarism is a severe academic offense.

By submitting your assignment you certify that you have read and understood the university's policies on plagiarism. Please also consult the [university's website on academic writing](#). If I detect plagiarism, I will go through the standard process for academic misconduct.

Contact

- I hold 3 hours of office hours each week during the term (i.e. while classes are taught). To ensure that you get the most out of these, please come prepared with specific questions. Please be mindful of other students – potentially taking a different course with me – who may also wish to talk to me during this time. Finally, I kindly ask you to respect the schedule of my office hours.
- For questions about the class material, please come to my office hours.
- E-mails and the discussion board on Blackboard should be used only for questions regarding logistics and organization of the course. If your question is of general interest, please post it on the discussion board. I will try to answer e-mails and posts on the discussion board by the end of the next business day. E-mail queries about class material that require lengthy answers will receive the following answer: “Please see me during my office hours.” When sending an e-mail please use your University of Toronto e-mail address. Also, please mention the course code, “ECO2503” in the subject line of your message.
- Please check the course website on Blackboard regularly, especially course announcements. Use the discussion board in Blackboard to ask questions regarding logistics and the organization of the course.

Acceptable Medical Notes

- The only accepted note is a fully completed [University of Toronto Medical Certificate](#).
- It must be **original** and completed by a qualified medical doctor (e.g., not an acupuncturist, chiropractor, or other health care professional).
- The physician’s OHIP registration number must be provided on the note.
- I will not, under any circumstances, accept post-dated medical notes. The physician’s report must establish that the patient was examined and diagnosed at the time of illness, not after the fact.
- If you miss an exam or midterm, the note must clearly state that on the date of exam or midterm, the student was too sick to write the test. Illness before the test is not sufficient grounds for missing the test. Nor will I accept notes that indicate that the student would have performed “sub-optimally”.

Feedback

Student feedback is the most important resource to continuously improve the course, and I take it seriously. I collect feedback in two formats.

- 1) Weekly (short) feedback: each week, you are welcome to submit your opinion about the week’s class, indicating what went well and what needs improvement. Please see the link “Weekly short feedback form” under course materials on Blackboard.
- 2) “Halftime” evaluation: halfway through the course, after the midterm, you will be invited to answer a set of more detailed questions about your opinion on the course. A link to the online web form will be made available on Blackboard.

Providing feedback is voluntary, strictly anonymous, and much appreciated.

Course Outline and Readings

Please see the document titled “Outline and Readings” on Blackboard for the complete outline and list of readings. This document will be posted during the first week of the course. The outline is subject to change.

Planned coverage

1. An introduction to asset pricing, net present value, internal rate of return
2. Investor preferences and risk
3. Bond pricing
4. Mean-variance analysis and portfolio choice
5. The Capital Asset Pricing Model and various extensions: asset pricing with exogenous risks
6. Arbitrage Pricing Theory, factor asset pricing models
7. The law of one price, arbitrage, state prices, stochastic discount factor
8. Consumption-based asset pricing, the equity premium puzzle, ICAPM, Hansen-Jagannathan bounds
9. Empirical evidence on security returns, efficient financial markets

Additional Readings

I compiled a (very short) list of additional studies that you can read – in addition to the ones I mention/link in the lecture slides – if you are interested in asset pricing in general and/or as preparation for any upcoming interviews or informal conversations. This list will be posted on Blackboard during the term.