

Syllabus for ECO358H1F. 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: 2-5pm. Section L5101: 5-8pm.**
*Most lectures take place 2-4pm and 5-7pm. Exceptions TBA on the portal.
Please attend the section that you are registered for!*
- Class Location: LM 161 for L0101 and RW 117 for L5101.
- Term Tests: In-class on October 10 and November 21.
Section L0101: 3-5pm. Section L5101: 5-7pm
- Test Location: **Rooms TBA on the portal - not in your classrooms!**
- Instructor: Professor Malinova
- Office: Max Gluskin House 211 (GE 211), 150 St. George Street.
- Office Hours: Wednesdays 10:55-11:55 (Professor Malinova, GE 211); with exceptions.
*Please see portal for the office hour schedule during the weeks of
your term tests and during the study and exam period.*
- TAs: Guan Yi Lin
Valeriya Mordvinova
Hang Zheng
Zach Bunting
- TA Office Hours: TBA.
- E-mail Contacts: Section L0101: Valeriya Mordvinova, valeriya.mordvinova@mail.utoronto.ca
Section L5101: Hang Zheng hang.zheng@mail.utoronto.ca
Please read the e-mail policy below before sending an e-mail.
- Course Webpage: <http://portal.utoronto.ca> (not yet fully operational)
- Exclusions: ACT349H1,RSM332H1.
- Prerequisites: ECO200Y1/ECO204Y1/ECO206Y1,
ECO220Y1/ECO227Y1/(STA220H1,STA255H1)/(STA257H1,STA261H1).

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.

Please note that the tests may be marked using the crowdmark system.

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 two weeks 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 10 (in class, **3-5pm and 5-7pm**), the second takes place on November 21 (again, in class, **3-5pm and 5-7pm**). **Exam room locations will be announced in class and on the course webpage.**

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. 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, please provide Professor Malinova with the relevant supporting documentation within a week of the missed test. Please leave the relevant documentation with the Economics Department reception, at 150 St. George Street and inform your designated e-mail contact (Hang or Valeriya).

In the event of an illness, you must provide a medical note (original, not scanned or e-mailed). The University's Verification of Student Illness or Injury (VOI) form is recommended because it indicates the impact and severity of the illness, while protecting your privacy about the details of the nature of the illness. You can submit a different form (like a letter from the doctor), as long as it is an original document, and it contains the same information as the VOI.

Please contact Professor Malinova directly, at katya.malinova@utoronto.ca, if you miss the term test for other reasons. It is also a very good idea to speak with an advisor in your College Registrar's office; they can support you in requesting extensions or accommodations, and importantly, connect you with other resources on campus for help with your situation.

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 by Zvi Bodie, Alex Kane, Alan Marcus, Stylianos Perrakis, Peter Ryan, 8th Canadian edition. The ISBN numbers depend on whether you use the online or the print versions. The print edition ISBN 9780071338875; Connect with Smartbook Online ISBN 9781259023064. If you use a different edition, be aware that you will be responsible for reconciling the differences.

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 come to our office hours. If you have a very short (yes or no type) question, you may send it to your designated e-mail contact (Hang or Valeriya).

Please be respectful of their time. 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), you will be referred to our 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). We will not reply to e-mails received within 36 hours of term tests and the final exam.

If not using the Blackboard system, please include in the “subject” the course number and please include you *full name* and your *student number* in the body of your message. Please do NOT send any attachments with your email messages.

Official Statement on Academic Integrity:

All students, faculty and staff are expected to follow the University’s guidelines and policies on academic integrity. For students, this means following the standards of academic honesty when writing assignments, citing and using source material appropriately, collaborating with fellow students, and writing tests and exams. Ensure that the work you submit for grading represents your own honest efforts. Plagiarism. Representing someone else’s words as your own or submitting work that you have previously submitted for marks in another class or program is a serious offence that can result in sanctions. Speak to me or your TA for advice on anything that you find unclear. Also, see the U of T writing support website at www.utoronto.ca/writing. Consult the Code of Behaviour on Academic Matters for a complete outline of the University’s policy and expectations.

Official Statement Regarding the Blackboard System

This course uses the University's learning management system, Blackboard Learn, to post information about the course, including materials required to complete class activities and course assignments, share important announcements and updates, and foster academic discussion between learners. The site is dynamic and new information and resources will be posted regularly as we move through the term. The principal source of information about all course-related work will be the course site in Blackboard, so please make it a habit to log in to the site on a regular if not daily basis. To access the course website, go to the U of T Portal log-in page at <http://portal.utoronto.ca> and log in using your UTORid and password. Once you have logged in to the Portal using your UTORid and password, look for the My Courses module where you will find a link to the ECO358H1F course site. Note that if you are currently enrolled in other courses at the University, your other course links will also appear here. Click on the ECO358H1F link to open our course area and view the latest announcements and updates, and access your course resources. Additional information on how to navigate the course materials in Blackboard can be found at the end of this syllabus. SPECIAL NOTE ABOUT GRADES POSTED ONLINE: Please note that any grades posted within the Blackboard Grade Centre are posted for your information only, so you can view and track your progress through the course. No grades are considered official, included any posted in Blackboard at any point in the term, until they have been formally approved by the Course Instructor at the end of the course.

Ongoing Learning Disability or Accommodation Requirement

Students with diverse learning styles and needs are welcome in this course. If you have an ongoing disability issue or accommodation need, you should register with Accessibility Services (AS) (accessibility.utoronto.ca) at the beginning of the academic year. Without registration, you will not be able to verify your situation with your instructors, and instructors will not be advised about your accommodation needs. AS will then assess your medical situation, develop an accommodation plan with you, and support you in requesting accommodation for your course work. Remember that the process of accommodation is private: AS will not share details of your condition with any instructor, and your instructors will not reveal that you are registered with AS.

Tentative Course Structure

Specific topics as well as the literature references will be posted on Blackboard as the term progresses. Several lectures may be based solely on lecture notes with little or no textbook reference.

Week 1 Overview of Financial Instruments and Trading.

Weeks 1-2 Basic Tools for Making Financial Decisions.

- The Law of One Price & the Absence of Arbitrage.
- The Time Value of Money & Interest Rates

Weeks 2-3 Basic Valuation:

- Bond Prices and Yields.
- The Term Structure of Interest Rates.

Week 4 Choice Under Uncertainty. Basics of Portfolio Theory.

Week 5 Term Test 1.

Weeks 6-9 The Tradeoff between Risk and Return.

- Pricing of Risk.
- Optimal Portfolio Choice. The Capital Asset Pricing Model.
- Arbitrage Pricing Theory & Multi-Factor Models.

Week 10 Term Test 2.

Week 11 Empirical evidence of market returns. Market Efficiency

Week 12 Basics of Derivatives (options and pricing of options).