

# *Financial Economics I*

*ECO358 – Fall 2018*

*Section L0301: M3-6      Section L0101: T2-5*

*Section L5101: T5-8      Section L0201: W2-5*

## **Course Description**

An introduction to economics of financial assets and financial markets. Topics: inter-temporal choice, expected utility theory, security valuation, selected asset pricing models, market efficiency, and the term structure of interest rates - essential materials for an understanding of the role and operation of financial markets. You should expect a combination of math-based theory and practical problems.

## **Instructor & TA information**

Robert J. McKeown  
Assistant Professor, Teaching Stream  
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Teaching Assistants: to be announced

## **Prerequisites**

You must have completed the appropriate prerequisites to continue in this course:  
<https://www.economics.utoronto.ca/index.php/index/undergraduate/load/prerequisites>

## **Learning outcomes**

If successful, you will be able to:

- analyze asset class (equity, bonds, etc.) risks and returns,
- analyze portfolio decisions made by investors,
- appreciate the elegant mathematics of financial theory, and
- identify short-comings in theory and practice.

## **Additional reasons you might enjoy this course**

You will

- be better prepared to write professional designations such as the Canadian Securities Course and the Chartered Financial Analysis,

- be ready for business and financial economics at graduate school.
- better understand how to manage your personal finances,
- knowledgeably discuss market performance with your friends, family, (future) clients, and colleagues.

## Textbook

“Investments” by Zvi Bodie, Alex Kane, Alan Marcus, Stylianos Perrakis, Peter Ryan, 8th Canadian edition, McGraw-Hill Ryerson (required).

Burton Gordon Malkiel, “A Random Walk Down Wall Street”, W.W. Norton Publishing 2010 (recommended)

## iClicker

During class time, iClicker questions encourage you to prepare for class, talk about economics and accounting, and identify misunderstandings. Like any class participation, quality matters. Correct iClicker responses earn full marks. This will reward you for completing the assigned readings and remaining attentive in class.

It is your responsibility to: correctly register your iClicker, bring it to class, arrive on time, and stay for the entire class. You may collaborate with your classmates: in fact, you are encouraged to do so. Register your iClicker on Quercus to avoid any additional fees. You can find instructions here:

<http://teaching.utoronto.ca/ed-tech/teaching-technology/iclickers/registering-your-iclicker/>

Your replies are recorded even if you are not registered, but you must register to earn credit for your work.

How can I tell if my iClicker is working? When your response is received by an iClicker base, a green light illuminates on your iClicker remote. Please make sure to vote only while voting is active in our class. A red light (or no light) indicates a problem. The last answer you press (while voting is still active) is graded. Nearly all strange remote behavior can be fixed by replacing ALL batteries. For support call 866-209-5698 or visit <http://support.iclicker.com/>.

How can I be sure if I am earning marks with my iClicker? There are two separate requirements: (1) attend class, answer while voting is active, and get a green light and (2) properly register with your UTORid. Check (1) during class. To check (2), go to <https://www.iclicker.com/find-your-remote-id>, enter your UTORid, and make sure your registration is active.

## Calculator

You will want a non-programmable financial calculator such as the:

1. Texas Instruments BA II Plus (including BA II Plus Professional)

- Hewlett Packard 12C (including the HP 12C Platinum, 12C Platinum 25th anniversary edition, 12C 30th anniversary edition, and HP 12C Prestige)

These are the only two calculators approved for the CFA exams that I imagine many of you would consider taking. You may use an alternative non-programmable calculator, but I cannot guarantee it will perform the necessary actions. Basically, you want a calculator that can perform present value calculations but is also non-programmable.

## Website

Announcements and course material will be posted on Quercus.

## Office Hours

I hold office hours every Thursday beginning September 20. You may book 15 minute sessions to discuss course material or administrative issues. To make a reservation, please visit the Google document: <https://docs.google.com/spreadsheets/d/1AbIoYNv1le9Vt4zM0WZTssPs1BnFrQ3lioDrOUQEjI0/edit#gid=0>. If this time does not work for you, please email me to arrange a meeting. I will do my best to accommodate you within a reasonable period of time.

## Email policy

The best form of communication in this course is in person, either with myself or a TA, during lecture, immediately following lecture, and office hours. Generally, I do respond to questions about course content via email. In the event that an e-mail communication is needed, please use your UTOR e-mail account (the “utoronto” account). E-mails from other accounts may not reach my inbox and your email helps me identify you. Please include the course code, your full name as it appears on Acorn, preferred name, and student number in the body of the email. Also, please **include the course code in the subject line**. For e-mails asking for a reply, I will reply within three business days. If I fail to do so, you should assume I forgot and re-send your message to remind me.

## Evaluations

	Date	Grade
Term Test 1		20%
Term Test 2		20%
Class Participation	Weekly	10%
Online quizzes	Weekly	5%
Final exam	Exam period: April 9–30	45%

Note: The tests will be held outside of class! Regarding exams, please do not make any travel plans until the examination period has ended.

The term tests will consist of written-answers. It will be held in our scheduled classroom at the beginning of class. The term test will be 90-100 minutes and will also be held in-class. The term tests and final exam will be **cumulative** – you must not forget what you’ve already learned!

There will be a number of online quizzes throughout the semester. These questions will test your knowledge and understanding to help prepare you for class – they are **NOT** necessarily representative of test question difficulty!

## Participation

Participation grades can be earned in the following ways: (i) attending class, (ii) correctly answering iClicker and written end-of-class questions, and (iii) participating in class discussions. At the end of the academic year, if you facilitate learning in the classroom in a remarkable fashion, I reserve the right to boost your final grade commensurate with your contribution. You earn two marks for answering each question and two marks for the correct answer. Each class, you earn a percentage of the total marks available which counts towards your final participation grade. You may miss one class without negatively affecting your grade however subsequent absences will receive a grade of zero for that class.

## Missed tests

Missed online quizzes will receive a grade of zero. If you miss a term test for a certified medical reason, or other approved cause, you must provide printed documentation (such as a medical note or death certificate) to validate your absence. Acceptable medical notes include the UofT Verification of Illness or Injury Form, Student Health or Disability Related Certificate, a College Registrar’s Letter, or an Accessibility Services Letter. Further, you must submit the document(s) to me **in person within five business days** following the term test. You may do so either immediately following lecture or during my office hours. If you miss a term test, your grade-weight will shift to the makeup term test. The makeup test will be held on \_\_\_\_\_. If you miss the makeup test for any reason, you will receive a grade of zero.

You may find the the University of Toronto official Verification of Student Illness or Injury form here: <http://www.illnessverification.utoronto.ca/index.php>

## Appealing your grade

Disputes over the evaluation of a test should be discussed with me. Disagreement with the marking means that an error might have been made – for instance, the marker failed to consider a part of your answer. Conversely, suggesting that you believe you deserved a higher grade is not a valid reason for a re-grade. After reviewing the solution posted on the course website, submit in person the re-grade request form on Quercus. You must submit your appeal no later than one week after the solutions have been posted on Quercus. Please note that all questions will be remarked – not only the question in dispute!

## Crowdmark

The department of economics has secured Crowdmark for all of our undergraduate course offerings. Crowdmark is a ‘collaborative online grading and analytics platform that helps educators evaluate student work more effectively.’ Your term tests will be scanned and uploaded to Crowdmark. It is here that your work will be graded.

## Academic integrity

Academic integrity is one of the cornerstones of the University of Toronto. It is critically important both to maintain our community which honours the values of honesty, trust, respect, fairness and responsibility and to protect you, the students within this community, and the value of the degree towards which you are all working so diligently. According to Section B of the University of Toronto’s Code of Behaviour on Academic Matters <http://www.governingcouncil.utoronto.ca/Assets/Governing+Council+Digital+Assets/Policies/PDF/ppjun011995.pdf>, which all students are expected to know and respect, it is an offence for students:

- To obtain unauthorized assistance on any assignment.
- To provide unauthorized assistance to another student. This includes showing another student completed work (e.g., an answer on a test).
- To falsify or alter any documentation required by the University. This, includes, but is not limited to, doctor’s notes.
- To use or possess an unauthorized aid in any test or exam (e.g., a cell phone).
- To continue writing when the time is up in any test or exam.
- To submit a medical note to get out of a test when the student is not actually sick.

There are other offenses covered under the Code, but these are by far the most common. Please respect these rules and the values which they protect. For useful tips for avoiding academic misconduct, please visit the website of the Office of Student Academic Integrity at <http://www.artsci.utoronto.ca/osai/students/avoid-misconduct>.

# Course Content

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- 1 Mean-Variance Optimization and CAPM
  - 2 Arbitrage Pricing and Factor Models
  - 3 Bond Pricing and the Term Structure of Interest Rates
  - 4 Derivatives: Options and Futures
  - 5 Market Efficiency and Behavioural Bias
  - 6 Market Microstructure
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