ECO 2503H1 L9201
Financial Economics I (MFE)
Fall Term 2020

Instructor: Peter Cziraki
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Delivery format: Online only
Office hours: M13-14; M21.30-22.30 (joint with MA)

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.

Meetings

Mini lectures spanning each topic are pre-recorded and will be made available on Quercus.

Office hours
I will be available for live Q&A during office hours:
- Mondays 13-14*;
- Mondays 21.30-22.30*; joint office hour with MA students to better accommodate students across time zones.

Office hours will be held via a video conferencing platform (Zoom/BB Collaborate/MS Teams).
*I will start the office hours at the specified time, i.e. *on the hour*. If there is no attendance in the first 15 (fifteen) minutes, I will end the office hour session.

To ensure that you get the most out of these, please come prepared with specific questions. Please be mindful of other students who may also wish to talk to me during this time.
Finally, I kindly ask you to respect the schedule of my office hours.

Make-up Monday
There is no class on Monday October 12 (Thanksgiving Day). In line with university policy, "make-up Monday" is scheduled for Thursday December 10. This means that "week 11" and "week 12" of the course will take place during the same calendar week in December. We will likely make use of this class for presentations (see below).

Evaluation

There are six evaluation components:

1. A "rent vs. buy" assignment to be completed individually (16%)
    - Final write-up due by 11.00 on Monday, October 26
    - Please see the separate document titled "Rent vs Buy Assignment for ECO2503 MFE, Fall 2020" on Quercus for further details
2. A portfolio assignment to be completed individually (1% + 20%)
    - First part due by 11.00 on Monday, September 28 (1%)
    - Final write-up due by 11.00 on Monday, November 16 (20%)
    - Please see the separate document titled "Portfolio Assignment for ECO2503 MFE, Fall 2020" on Quercus for further details
3. A term paper to be completed in your **assigned** group (1% + 20%)
    - Table of contents due by 11.00 on Monday, October 5 (1%)
    - Final write-up due by 11.00 on Monday, November 23 (20%)
    - Please see the separate document titled "Return Predictability Assignment for ECO2503 MFE, Fall 2020" on Quercus for further details
4. An academic paper presentation to be done in a group **of your choice** (16%)
    - During the scheduled class hours (M 17-20), Monday December 7 and/or Thursday December 10 (i.e. weeks 11-12 see above on "make-up Monday"), depending on the number of groups
    - We will make an effort to optimize the scheduling across time zones but students should expect to participate in class on these two days and not schedule anything else during those hours
5. A final "timed assessment" during the final assessment period, Dec 10-23 (20%)
    - The "timed assessment" will cover all of the course material
    - Details will be announced on Quercus
6. *Constructive* and *professional* participation in the course (6%)
    - Participation in the Q&A during the paper presentations (see 4 above)
    - Other participation live or in writing (e.g. online discussion boards) throughout the course, where the opportunity arises, including, but not limited to
        - Interactions with fellow students
        - Interactions with the instructor and the teaching assistant

All of the deadlines are Toronto (Eastern Standard, or Daylight, as appropriate) time – i.e. for an 11.00 deadline, a student in Beijing has to submit by 23.00 Beijing time, and a student in Vancouver has to submit by 8.00 Vancouver time.

Late assignments carry a penalty of 10% (of the total assignment grade) per hour.

The overall grade for the course will be calculated as the weighted average of these evaluation components with the weights given above.

The use of Turnitin.com
Normally, students will be required to submit their course essays to Turnitin.com for a review of textual similarity and detection of possible plagiarism. In doing so, students will allow their essays to be included as source documents in the Turnitin.com reference database, where they will be used solely for the purpose of detecting plagiarism. The terms that apply to the University's use of the Turnitin.com service are described on the Turnitin.com web site.

Teaching Assistant

The teaching assistant (TA) for the course is Louis-Etienne Salmon-Belisle. He is responsible for grading assignments. He will hold office hours to address any questions regarding the grading. An announcement will be made on Quercus to inform you of the time of such office hours.

General Policies

Appeals of term work (i.e. everything except the "final timed assessment")
Claiming *only* that a mistake was made when adding up your grades does not constitute an appeal. If you believe this is the case, simply email the TA in the first instance.

The following regulations govern "substantive" appeals on term work (except the "final timed assessment"), i.e. cases in which you claim that an error was made in assigning points to your answers (you should have received more points than you were given).

If you appeal to re-grade one of the assignment questions, I will re-grade *the entire* assignment. Note that this may (and in the past usually has) lead to a lower overall grade. All appeals must follow the procedure below:

a) **No appeals on term work are accepted in the first ten days after the grade is communicated.** If university policy sets a deadline to appeal grades, in all cases I will automatically extend this deadline by ten days so that students have the same amount of time during which they can hand in an appeal. Again, this applies to term work, not to the "final timed assessment".
b) 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.
c) You must also suggest how many marks/points/percentages you believe your answer was worth and why.

I reserve the right not to respond to appeals that violate any of these conditions.

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. Please contact me during office hours if you have any questions about how to solve practice problems. 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
a) For questions about the class material, please come to my office hours.
b) For organizational matters, please refer to this syllabus and the course outline first
c) E-mails should be used only for questions regarding logistics and organization of the course. I will try to answer e-mails by the end of the next business day. 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.
d) If you do not receive a response from me by the end of the next business day, the most likely reason is that one of (a)-(c) above are not satisfied.
e) Please check the course website on Quercus regularly, especially course announcements.

Missing an assessment deadline
If you anticipate that you might miss an assignment deadline, the best course of action is to contact me immediately. Students who are unable to attend office hours, view recorded lectures, and/or make an assessment deadline for any reason (e.g., COVID, other illness or injury, family situation) and who require consideration for missed academic work should do **two things:**
a) report their absence through the online absence declaration. The declaration is available on ACORN under the Profile and Settings menu **and**
b) reach out to me to explain the situation.

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 Quercus.

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 Quercus.

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

Course Outline and Readings

Please see the document titled "Outline and Readings" on Quercus 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