

UNIVERSITY OF TORONTO
Financial Economics I - Investment (ECO358H1F)

Fall 2022

Course Description

ECO358 offers an introduction to economics of financial assets and financial markets. Topics we will discuss include individual intertemporal choice, expected utility theory, portfolio choice, security valuation, models of asset pricing, market efficiency, and the term structure of interest rates. We will also provide an introduction to options and behavioral finance. This course aims to offer 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

Min Fang, PhD

Assistant Professor, Teaching Stream

Department of Economics, University of Toronto Office: Max Gluskin House #228

This syllabus is mainly inherited from Prof. Vellekoop on the teaching of the same course.

Teaching Assistants

Xuchuxue (Irisa) Zhou, Ph.D. Candidate of Economics

Jingkai Xu, Master Candidate of Financial Economics

Piazza Discussion Board

We will use Piazza as a Q&A forum during class. Piazza is now integrated with Quercus. One of the TAs and I will regularly look and contribute to Piazza. Please keep the discussion and answers civil (we can see your names), and only related to course content. The sign-up link is: (www.piazza.com/utoronto.ca/fall2022/eco358)

Email Addresses and Policy

If your request is Q&A-ish, you should ask the question on Piazza. For other matters, you may reach out me at min.fang@utoronto.ca, and please make sure to carbon copy (cc) to both Irisa at irisa.zhou@mail.utoronto.ca and Jingkai at jingkai.xu@mail.utoronto.ca, so that at least one of us could take care of your request. But please allow us up to 2 business days to respond.

Please be brief, clear and specific in your email. Please use your UTOR e-mail account. E-mails from other accounts may not reach us and your e-mail address helps us to identify you. Please include your full name, preferred name, and student number in the body of the email. If there is no response after 3 business days, please re-send your message.

Course Format

Both lectures and tutorials will be in person, and neither will be recorded or streamed for online access. If the university requires a change during the term from in-person to online only completely (which is very unlikely to happen), we will see what happens.

Lectures will start ten minutes past the hour and will be held on:

- - Section L0101: [Tuesday 2:10-4:00 pm in RW 110](#)
- - Section L5101: [Tuesday 6:10-8:00 pm in MP 202](#)
- - In general, I would suggest you go to your own assigned section. But since all lectures cover the same material, you may enter either lecture slot of your choice, space permitting. The evening section is less populated than the afternoon section. If you are more conscious about the space, you may come in the evening.

Tutorials will start ten minutes past the hour and will be held on:

- - Section L0101: [Tuesday 4:10-5:00 pm in RW 110](#)
- - Section L5101: [Tuesday 8:10-9:00 pm in MP 202](#)

Prerequisites

You yourself are responsible to check and make sure that you have fulfilled all requirements set by the University of Toronto to participate in this course. See for the appropriate prerequisites: (<https://www.economics.utoronto.ca/index.php/index/undergraduate/load/prerequisites>)

Tech Requirements

If public-health considerations require us to switch to online instruction (which is very unlikely to happen again this year!), you must have access to a laptop or desktop computer with a strong, stable internet connection. A phone is not an acceptable substitute as some required components may not be accessible on smartphones. A camera and mic are required for online contact activities such as office hours. High speed broadband access (LAN, Cable or DSL) is highly recommended. This course requires the use of computers, and of course, sometimes things can go wrong when using them. You are responsible for ensuring that you maintain regular backup copies of your files, use antivirus software (if using your own computer), and schedule enough time when completing an assignment to allow for delays due to technical difficulties. Computer virus attacks, crashed hard drives, broken printers, lost or corrupted files, incompatible file formats, faulty internet, and similar mishaps are common issues when using technology, and are not acceptable grounds for a deadline extension. See for Tech support in Quercus.

Course Materials (Required)

“Corporate Finance” by Jonathan Berk, Peter DeMarzo and David Stangeland, 2020, 5th Canadian edition, Pearson. You can use older versions or the American version (at your own risk). I will not provide an overview of differences between versions.

Motivation: many students will continue in the winter term with ECO359 “Financial Economics II”. I have coordinated with the instructor of ECO359 (Prof. Tsoy) that we will use the same book for both courses, so you will only have to buy the book once. In ECO358 we will cover most of the first 15 chapters.

- The bookstore carries the hardcopy of the book. If you only want to buy the e-book, go directly to Pearson. The exact link is (<https://www.pearson.com/store/p/corporate-finance-fifth-canadian-edition/P100003044489/9780136649182>).

Professor Office Hours

Starting in week 2, I have open office hours in-person at Max Gluskin House #228 every Monday 4:00 pm-5:30 pm. This is the office hour for questions about the lectures, and other course or content related issues. I am looking forward to seeing you there, and feedback is much appreciated. In addition, you can see me right before and after the lecture in person.

Teaching Assistant Office Hours

Both TAs have weekly office hours, starting in week 2. Office hours will be in-person. The time and location will be posted on Quercus. More office hours will be offered the week before tests.

Schedule of Topics, Chapters and Tests

NO.	Week	Topic	Chapter	Tutorials	Quiz
1	Sep. 13	Tools	3-5	-	-
2	Sep. 20	Valuing Bonds and Term Structure	6+6A	T1	Quiz1 (Sep.23)
3	Sep. 27	Valuing Stocks and EMH	7	T2	Quiz2 (Sep.30)
4	Oct. 04	Risk and Return	3,6+10	T3	Quiz3 (Oct.07)
5	Oct. 11	Midterm 1 (Lectures 1-3)	-	-	-
6	Oct. 18	Optimal Portfolio Choice	11.1-11.5	T4	Quiz4 (Oct.21)
7	Oct. 25	CAPM and Estimating Cost of Capital	12	T5	Quiz5 (Oct.28)
8	Nov. 01	Investor Behavior	13	T6	Quiz6 (Nov.04)
-	Nov. 08	Reading Week, No Classes	-	-	-
9	Nov. 15	Midterm 2 (Lectures 4-7)	-	T7	-
10	Nov. 22	Financial Options	14	T8	Quiz7 (Nov.25)
11	Nov. 29	Option Valuation	15	T9	Quiz8 (Dec.02)
12	Dec. 06	Recap	-	-	-
13	TBA	Final Exam (Lectures 1-9)	-	-	-

- – Tutorial questions will be posted at the beginning of the week.
- – Professor and TA office hours start in week NO.2.
- – **Midterms** are scheduled to take place in weeks 5 (likely Tuesday October 11) and 9 (likely Tuesday November 16). Exact days, times and locations will be announced on Quercus in advance.
- – A cheatsheet with formulas will be provided for the midterms and the final.

- – The final exam will be scheduled by the university in the period December 10-20, 2022. The final covers all materials discussed. In general, if a concept, definition or problem is discussed in class, it can be part of a test.

Grading

[20%] **Quercus quizzes**: there will be 8 quizzes. These are short (15-30 minute) quizzes like tutorial questions of the week before. Quizzes will be released every Friday morning at 12:00 am, starting in week 2, and you have 24 hours (ends at 11:59 pm) to complete the quiz (detailed instructions on Quercus). Quizzes are open book.

[40%] Two **midterm tests** (75 minutes writing time each). The weight of each midterm is 20%. Coverage for each midterm can be found in the overview.

[40%] **Final exam** (120 minutes writing time). The final is comprehensive and will cover all material discussed in class. All tests are closed book, and a cheatsheet will be provided.

Missed Quizzes/Tests

- There is no makeup possibility for Quercus quizzes.
- If you miss a midterm for any reason, your other midterm will be up to [35%] of your total grading. The idea of the 5% penalty is to avoid strategic missing the second one if you got a good score in the first and penalty for missing the one midterm itself.
- If you miss both midterm tests because of medical reasons or other grave circumstances, you need to reach out to **your college registrar** first, explain your situation **to them**, and have **them** contact me. I will not look at certificates of medical illness or any other docs.
- If you miss the final exam, you need to petition A&S.

Appealing Your Grade

Disputes over the evaluation of a test or quiz 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, use the re-grade request form which will be available on Quercus. You must submit your appeal no later than two weeks (10 business days) after the solutions have been posted on Quercus, or answers have been released, whichever comes last (I sometimes post the model solutions before the tests are graded). In your appeal, you must identify the questions that you believe were marked incorrectly and provide an explanation as to why you believe you deserve additional marks.

Practice Material

Old midterms with solutions will be posted on Quercus. There are plenty of practice questions in the book, and even more practice material on MyLab (though the purchase of MyLab is optional). I will not post solutions of other questions, but you can discuss them in TA office hours.

Resources and ATS

Students with diverse backgrounds, perspectives, learning styles and needs are welcome in this course. We want to create a welcoming inclusive environment. If you see ways do better, help us improve with your suggestions. If you need help achieving academic success in this course, please reach out to me. For accessibility services and/or any kind of accommodations, please see: (<http://www.studentlife.utoronto.ca/as>). Resources to help you at the UofT are listed at: (<https://www.studentlife.utoronto.ca/asc>). For course-related issues, please get in touch with me and your College Registrar. For longer-run issues or issues outside our course please contact your College Registrar at (<http://www.artsci.utoronto.ca/newstudents/nextsteps/contact>).

Academic Integrity

Academic integrity is one of the cornerstones of the University of Toronto. It is critically important both to maintain our community which honors 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 Behavior on Academic Matters, which all students are expected to respect.

The link on the university website: (<https://governingcouncil.utoronto.ca/secretariat/policies/code-behaviour-academic-matters-july-1-2019>). 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: (<https://www.artsci.utoronto.ca/current/academic-advising-and-support/student-academic-integrity>).