

**UNIVERSITY OF TORONTO**  
**Financial Economics I - Investment (ECO358H1F)**  
**Fall 2023**

**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**

Nathanael Vellekoop, PhD  
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**Class Email Address**

The dedicated email address for this class is [eco358.vellekoop@utoronto.ca](mailto:eco358.vellekoop@utoronto.ca). A TA and I will regularly check this email address, but please give us 1-2 business days to respond.

**Course Format**

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

- Tuesday 3.10-5pm in UC 140
- Tuesday 5.10-7pm in UC 140

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

- Wednesday 3.10-4 in SS 1070
- Wednesday 4.10-5 in UC 85
- Thursday 5.10-6 in UC 163
- Thursday 6.10-7 in UC 185
- Friday 11.10-noon in UC 87
- Friday 12.10-1 in UC 163

**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>

## Course Materials

### Textbook (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.

MyLab is optional, and the book representative has promised me that a MyLab subscription is valid for the entire year (so that you can use it for both ECO358 and ECO359).

**Moblab (required):** you need to buy a subscription for the MobLab platform. MobLab is an online environment to play economic games. We will use this extensively throughout the course to experience and illustrate several principles in class. We have received a 60% discount of the regular price: we pay 12 USD. Instructions how to enroll can be found on Quercus.

**Software (optional):** We will sometimes use Excel for calculations (you may use a financial calculator instead). Excel and Microsoft Teams are included in the Office 365 Suite freely available for UofT students.

### Office Hours

Professor office hours start in week 3, every Tuesday 2-3pm in GE 222. 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.

TA Office Hours start in week 2, location and time will be announced on Quercus.

### Email policy

All emails should be sent to the dedicated email address for the class: [eco358.vellekoop@utoronto.ca](mailto:eco358.vellekoop@utoronto.ca). A TA and I will monitor the inbox. Please allow for a response within 1-2 business days. Please be brief, clear and specific in your email. Please use your UTOR e-mail account (the “utoronto” 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 to remind me or the TA.

## Schedule of Topics, Chapters and Tests

	Date	Topic	Chapter	Tutorials
1	12-Sep	Tools	3-4	T1
2	19-Sep	Interest Rates and Valuing Bonds	5, 6+6A	T2
3	26-Sep	Valuing Bonds and Term Structure	5, 6+6A	T3
4	3-Oct	Valuing Stocks	7	T4
5	10-Oct	Risk and Return: Concepts	10	T5
*	tba-Oct	<b>Midterm 1 (Topics 1-4)</b>		
6	17-Oct	Risk and Return: Portfolios	10	T6
7	24-Oct	Portfolio Construction	11	T7
			Handout	
8	31-Oct	CAPM	11	T8
		Estimating the Cost of Capital	12	
*	tba-Oct	<b>Midterm 2 (Topics 5-7)</b>		
*	7-Nov	<i>Reading Week</i>		
9	14-Nov	Efficient Market Hypothesis	7.5	T9
		Finance and Psychology	13+videos	
10	21-Nov	Financial Options	14	T10
11	28-Nov	Option Valuation	15	T11
12	5-Dec	Recap		<i>No tutorials</i>
*	<b>TBA</b>	<b>Final Exam</b>		

- List of topics and chapters is subject to change.
- The lectures on September 19 will likely have a shortened format and will be held online on Zoom. Details will be posted on Quercus.
- **Midterms** are scheduled the week of October 10 and October 30, outside of class hours. Each midterm is 90 minutes writing time. Changes in the public health situation may result in changes to test dates. Day, time and room will be announced on Quercus. A form will be opened the week before the test to announce conflicts.
- A formula sheet will be provided for the midterms and the final.
- The final exam will be scheduled by the university in the period December 9-20, 2023. 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

- 5% Class participation with MobLab throughout the term
- 60% Two **midterm tests** (90 minutes writing time each), 30% each.
- 35% **Final exam** (120 minutes writing time). The final is comprehensive and will cover all material discussed in class. All tests are closed book, a formula sheet will be provided.

This syllabus is written under the assumption that midterms and the final will be held in-person. If changes in the public health situation require a different format, I will communicate the format of the online test well before the test, including tech requirements (internet connection, camera and mic) and we will do a test run.

### **Missed quizzes/tests**

- You can miss one MobLab quiz without consequences.
- If you miss one midterm for any reason, I will shift the weight to the final exam, there is no makeup test. No documentation is required. If you miss both midterms, the weight of only one midterm will be shifted to the final, the other test will receive a zero. If you make both midterms, I will replace the grade of your lowest midterm with your final exam, as long as your final exam grade is higher than your lowest midterm.
- Students **cannot** petition to re-write a test once the test has begun. If you are feeling ill, please do not start the test, seek medical attention immediately, and the policy on missing tests will apply. Note that if you do write a midterm test and do not perform optimally, weight-shifting may still apply – see the instructions above.
- 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 at [n.vellekoop@utoronto.ca](mailto:n.vellekoop@utoronto.ca).

For accessibility services / accommodation, 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 <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 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 <https://governingcouncil.utoronto.ca/secretariat/policies/code-behaviour-academic-matters-july-1-2019>, 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 <https://www.artsci.utoronto.ca/current/academic-advising-and-support/student-academic-integrity>.