

Course Syllabus

ECO359H1 – Financial Economics II

Department of Economics
University of Toronto St. George
Winter 2024

Contact Information

Instructor: Sedat Ersoy

Email: sedat.ersoy@mail.utoronto.ca

Office hours and location (Instructor): Wednesday 12-1 pm on Zoom

TA: Andisheh Danaee

Email: andisheh.danaee@mail.utoronto.ca

Office hours and location (TA): TBA on Quercus

Class hours and location: Tuesday 2 - 5 pm in RW 140 (1 hour will be used as a tutorial)

Webpage: U of T Quercus

All lecture times, tutorial times, exam times, deadlines, etc. will be in local Toronto time.

Contact Hours

All lectures and office hours (OH) will be delivered in-person.

OH's will be starting from the second week, and there will be extra OHs prior to the midterm and the final exam.

Communication

- You must use your university email address and include Eco359 in the subject line, when you send an email.
- I will try to answer your questions within 48 hours.
- Please attend office hours if you prefer prompt responses to your questions.

Course Objectives and Learning Outcomes

This course provides an introduction to corporate finance. At the end of this course, you are expected to

- define net present value, payback period, and internal rate of return.
- describe the capital structure that the firm should choose.

- discuss the implications of MM Proposition I, and the roles of homemade leverage and the Law of One Price in the development of the proposition.
- calculate the value of a levered firm.
- calculate the weighted average cost of capital with corporate taxes.
- define agency costs, and describe agency costs of financial distress and agency benefits of leverage.
- assuming perfect capital markets, describe what Modigliani and Miller (1961) found about payout policy.
- describe three risk management strategies firms use to hedge their exposure to commodity price movements.
- discuss the use of currency forwards and options contracts to hedge exchange rate risk.

Course Materials

There is no required textbook, but the following book is recommended as I will closely follow **Corporate Finance** (5th edition) by Jonathan Berk, Peter DeMarzo, and David Stangeland (2021, Pearson Canadian Edition, ISBN-13: 9780136649182, henceforth BD).

Course Outline

The following table presents the tentative topics we will cover during the term. Note that the contents of each week are subject to change and the updated version will be uploaded to Quercus. The midterm will cover all materials presented in the class until February 20, 2024.

Date	Topics (Tentative)	Read
9-Jan	Introduction, Time Value of Money-Review	BD 1-4
16-Jan	Investment Decision Rules	BD 7
23-Jan	Capital Structure	BD 14
30-Jan	Capital Structure	BD 14
6-Feb	Debt and Tax	BD 15
13-Feb	Debt and Tax and Review	BD 15
20-Feb	Reading Week	
27-Feb	Midterm (in-class)	
5 -Mar	Financial Distress, Managerial Incentives, and Information	BD 16
12-Mar	Financial Distress, Managerial Incentives, and Information	BD 16
19-Mar	Payout Policy	BD 17
26-Mar	Payout Policy & Risk Management	BD 17, 30
2-Apr	Risk Management	BD 30

Evaluation

There will be one midterm, which will take place in our class meeting time on Tuesday, one final exam, and weekly assignments. Their weights will be as follows:

Weekly assignments – 30% (in total)
Midterm – 30%

Final Exam – 40%

The date of the midterm is given in the course outline whereas the final exam will be during Final Exam Period, date to be announced. All exams are cumulative.

There will be weekly assignments and you will have two weeks to complete each assignment. Electronic copy of the assignment must be submitted on Quercus before deadline. Assignments submitted after the deadline will be subject to a penalty of 50% deduction of total marks per day.

This course will use Crowdmark, a collaborative online grading tool for marking and providing feedback on graded term assessments. Crowdmark provides efficiencies with grading, data recording, returning term assessments and handling regrade requests. Copies of student work marked in Crowdmark, including grading and feedback, will be available online to students for at least one year. Digital (i.e., online) copies will serve as the authoritative record for course administrative purposes, and paper copies of assessments scanned and uploaded to Crowdmark will be destroyed after the term has ended and final grades are approved. If students have questions about how your information is stored on Crowdmark, please contact your course instructor.

Submission of Course Work

- Late assignment/exam will be subject to a late penalty of 50% of the total marks for the assignment/exam. Assignment/exams submitted one calendar days beyond the due date will be assigned a grade of zero.
- Computer viruses, crashed hard drives, broken printers, lost or corrupted files, incompatible file formats, faulty internet, battery problems, and similar mishaps are common issues when using technology, and are not acceptable grounds for a deadline extension.
- It is every student's responsibility to ensure that their online submission is submitted successfully by the due date. Accommodations will not be made for unsuccessful submissions due to, but not limited to, i) the system timing out, ii) submitting the incorrect document(s), iii) poor internet connection / no internet connection etc.

Missed Term Work

In case you cannot take the midterm test at its designated time due to illness or other compelling circumstances, it is essential to provide supporting documentation for your absence within one week of the assessment. A makeup test will not be offered. However, if you miss a term test for a valid reason, the final exam weight will be adjusted to account for 70% of the total evaluation. If you miss the final exam, you need to petition A&S.

*Students **CANNOT** petition to re-write a quiz/test once the test has begun. If you are feeling ill, please do not start the online or in-class test, seek medical attention immediately, and the policy on Missed Term Work will apply.*

Regrade Request

You must submit your appeal no later than two weeks (10 business days) after the solutions have been posted on Quercus. If you appeal to re-grade one or more questions on the midterm tests, your request should be written and outlined in details why you think that you

deserve a different mark. I will re-grade the entire exam, and this may lead to a lower overall grade.

Technology

- You will need to be proactive to avoid technical and other difficulties—which includes submitting well before deadlines, maintaining your devices, minimizing the strains on your internet bandwidth, learning how to scan efficiently, carefully reading all assessment instructions, and contacting your instructors/TAs immediately with any problems.
- You need to store your work for this course in at least two places: your hard drive plus a memory card or the cloud. Make multiple backups of your files and physically store the backups in a different location from your originals or online. Remember: all hard disks will fail. Indirectly, this course measures your ability to manage computer files. Computer or file failure does not excuse you submitting your work.
- You will need the hardware, software, and knowledge to scan your handwritten work to be uploaded. You must be able to scan efficiently without creating very large files: you may need to learn about your phone or scanner, install software/updates, and/or search for solutions online. Most phones can scan (making a separate scanner unnecessary) and we accept PDF, JPG, and PNG files.

Use of Generative AI in Course Project Assignments

- Any content produced by an artificial intelligence tool must be cited appropriately. Many organizations that publish standard citation formats are now providing information on citing generative AI (e.g., MLA: <https://style.mla.org/citing-generative-ai/>).
- Students may choose to use generative artificial intelligence tools as they work through the assignments in this course; this use must be documented in an appendix for each assignment. The documentation should include what tool(s) were used, how they were used, and how the results from the AI were incorporated into the submitted work.
- Course instructors reserve the right to ask students to explain their process for creating their assignment.

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.

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.

Note: students who typically write tests with Accommodating Testing Services (ATS) might experience that the move online is different and that wait and response times might be long. If you have an accommodation to receive more writing time for tests, please send your ATS form

to sedat.ersoy@mail.utoronto.ca. We will make sure you get the accommodation that is needed.

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>.

Normally, students will be required to submit their course essays to the University's plagiarism detection tool 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 tool's reference database, where they will be used solely for the purpose of detecting plagiarism. The terms that apply to the University's use of this tool are described on the Centre for Teaching Support & Innovation web site (<https://uoft.me/pdt-faq>).