

ECO358H5S – Financial Economics I

Department of Economics University of Toronto Summer 2024

Contact Information

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Contact Hours

Lectures will be held in person at WO35, Monday, and Wednesday 10 am -12 pm.
Tutorials will follow each lecture at WO35, Monday, and Wednesday 12:10 - 1 pm.
TA office hours if any may be held on Zoom. Instructions will be given in class.

Course Objectives and Learning Outcomes

This course aims to provide an overview of the basic theories and tools in financial economics. Institutional perspectives on financial markets are introduced; theoretical concepts and empirical tools are emphasized. Topics to be covered include the time value of money, evaluation of investment projects, valuation of bonds and stocks, expected utility theory and portfolio choice, major models of asset pricing (CAPM, APT), the efficient market hypothesis, and option pricing theory. The course will discuss theoretical issues as well as their application to real-world examples.

Course Materials

The required textbook for the course is *Corporate Finance, 9th Canadian Edition* by Ross, Westerfield, Jaffe, and Roberts (2022, McGraw-Hill, ISBN: 9781260881370, hereafter referred to as Ross).

The recommended reference book is *Investments, 10th Canadian Edition* by Bodie, Kane, Marcus, Perakis, and Ryan (2022, McGraw-Hill, ISBN: 9781260881257, hereafter referred to as Bodie).

Additional lecture notes will be posted on Quercus.

Prerequisite

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 Outline

This is a course outline I would roughly follow this semester. The contents of each week are subject to change and will be updated on Quercus as the term progresses.

Lecture 1: (May 6)	Basics of financial markets and firm structure (Ross Ch. 1, 2).
Lecture 2: (May 8)	The Fisher Separation Theorem and the time value of money (Ross Ch. 4, 5 & lecture notes).
Lecture 3: (May 13)	The time value of money (further topics) and bond evaluation (Introduction) (Ross Ch. 5, 6).
Lecture 4: (May 15)	Bond evaluation (Ross Ch. 6).
Lecture 5: (May 22)	The term structure of interest; exam review (Ross Ch. 6).
May 27	Midterm Exam.
Lecture 6: (May 29)	Stock evaluation model and investment rules (Ross Ch. 6, 7).
Lecture 7: (June 3)	Choice under uncertainty and portfolio theory (Ross Ch. 10 & lecture notes).
Lecture 8: (June 5)	The capital asset pricing model (CAPM) (Ross Ch. 11 & lecture notes).
Lecture 9: (June 10)	Factor models and the arbitrage pricing theory (APT) (Ross Ch. 12 & lecture notes).
Lecture 10: (June 12)	Option pricing (Ross Ch. 23).
Lecture 11: (June 17)	The efficient market hypothesis; course review (Ross Ch. 14).

Evaluation

There will be one midterm exam, one final exam, and one term project. Your course grade is composed as follows:

$$\begin{aligned} &40\% \times \text{final} \\ &+ 30\% \times \text{midterm} \\ &+ 20\% \times \text{term project (due on June 17 @ 11:59pm)} \\ &+ 10\% \times \text{class participation} \end{aligned}$$

Submission of Course Work

The term project is due on Monday, **June 17 @ 11:59 pm**. The term project should be submitted on Quercus. Instructions will be given in the lecture. Late submission will be subject to a penalty of 33% deduction of total marks per day.

It is every student's responsibility to ensure that their assignment is submitted successfully by the due date. Accommodations will not be made for unsuccessful or late submissions due to, but not limited to, i) the system timing out, ii) submitting the incorrect document(s), iii) problems with the internet connection, iv) computer problems, etc.

Late submissions

Assignments and term projects submitted after 11:59 pm of the due date will be subject to a penalty of 33% deduction of total marks per day. The number of days for penalty calculation is in integer, counted by calendar date. You will have to email the late submission to the TA and the instructor following the email policy below as the window of submission on Quercus closes at 11:59 pm. Include your name and student number in the email.

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/codebehaviour-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-advisingand-support/student-academic-integrity>).

Email Communication

Emails are for short questions. I will utilize Quercus primarily to communicate general course-related issues. It is your responsibility that your account is set up to receive messages from Quercus. 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 the course code in the title of the email, and your full name, and student number in the body of the email. If there is no response after 3 business days, please re-send your message. I will not answer email questions within 24 hours before a test and the deadline of a course work.

Missed Term Work

The midterm exam is compulsory. There is no make-up midterm. In the case of missing the midterm, the weight will be transferred to the final exam only if you have a legitimate excuse as outlined in the university policies.

Missed term work due dates are subject to the late penalty outlined above.

Students who cannot complete their final examination due to illness or other serious causes must file a petition with the department. Please refer to the university policies

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

Regrade Request

If you appeal to re-grade one or more questions on the midterm test and/or course work, you have to request in writing and outline in detail why you think that you deserve a higher mark within 10 business days of the date the test and/or course work is returned to the class. The entire work will be re-marked. Note that this may lead to a lower overall grade.

Technology

Plagiarism Detection Tool

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 website (<https://uoft.me/pdt-faq>).

To opt-out of the plagiarism detection tool, you must:

- 1) notify the instructor two weeks before the due dates of the term work;
- 2) include all rough work related to the term work in the submission
- 3) include annotated bibliographies in the submission
- 4) submit through email to the instructor before the deadline.

Generative AI

Students may not use artificial intelligence tools for taking tests, writing research papers, creating computer code, or completing major course assignments. However, these tools may be useful when gathering information from across sources and assimilating it for understanding.

Zoom

Students must create an official UTM Zoom account using their UTORid and password at <https://utoronto.zoom.us>. Logging in with an unofficial account will leave you stranded in the waiting room.

Laptop, Tablet, and Smartphone Policy

It is expected that students will use technology responsibly, with consideration for their fellow students and other members of the University community. Laptops and smartphones are not to be used during class for email, instant messaging, web browsing, or any other activity that is disruptive to other students, the instructor, or the classroom environment. Violation of this technology policy may lead to a prohibition on all electronic equipment use for all students to ensure a productive classroom environment for everyone.

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>).