UNIVERSITY OF TORONTO
Financial Economics l - Investment (ECO358H1F)
Fall 2024

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 & Lectures

Instructor

Runjing Lu, PhD
Assistant Professor of Financial Economics
Department of Economics, University of Toronto

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

- **Tuesday 3:10-5pm** in **UC 140**
- **Tuesday 5:10-7pm** in **UC 140**

All lectures are in person, and none will be recorded or streamed for online access. All lectures cover the same material. You may enter any lecture slot of your choice, space permitting. However, for the midterm and final exams, you must take at the location / time designated for your enrolled session. If you take the exam designated for the other session, your grade will NOT count.

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

- **Thursday 3:10-4pm** in **MP 103**
- **Thursday 4:10-5pm** in **MP 202**

All tutorials are in person, and none will be recorded or streamed for online access. Tutorial questions will be posted at the beginning of the week.

Note on Time Zone

All times posted in the syllabus and on Quercus are in Toronto time. Mistakes in converting time zones are not an acceptable reason for missing deadlines.

Contacts

Piazza Discussion Board

This term we will be using Piazza (integrated with Quercus) for class discussion. Rather than emailing questions to me or TAs, I encourage you to post your questions on Piazza. Studies have shown that students often share similar questions. By posting your questions on Piazza, you are helping yourself and everyone else in the class to learn better. TAs and I will monitor Piazza daily during business hours so your questions will be addressed on a timely basis (within one business day if not within hours).

Please keep the discussion and answers civil and only related to course content. Although your posts can be made anonymous to your classmates, they are not to TAs and me.

The Piazza signup link for our class is at: https://piazza.com/utoronto.ca/fall2024/eco358h1f

Class Email Address

The dedicated email address for this class is ECO358H1F.a@course.utoronto.ca. Please prioritize using Piazza over sending emails as the email account is monitored less frequently. When emailing, please make sure to use your UTOR email account and include your full name and student number.

Office Hours

Professor Office Hours

I will hold office hours for questions about the lectures and other course-related issues on Zoom Monday 7:30-9:30 pm (zoom link: https://utoronto.zoom.us/j/7605963147 and passcode: officehour), except for Thanksgiving Monday (Oct 14) and Reading Week Monday (Oct 28). Students can sign up for a meeting of 15 minutes via Outlook Calendar. Please schedule by Monday 7:30am of each week, after which the calendar will be closed for the week. In addition to the online zoom office hours, you can ask me questions right before and after the lecture in person.

Prerequisites and Background

Prerequisites for this course are listed here. This is a quantitative course and draws upon analytical tools and theories developed throughout the course. You must be comfortable with concepts of probability, measures of location (i.e., mean) and dispersion (i.e., variance or standard deviation), and linear regression analysis (e.g., Ordinary Least Square). These materials are usually taught in probability & statistics class or in econometrics class. Calculus and linear algebra (e.g., addition, subtraction, multiplication, division, how to use X equations to solve for X unknowns, how to use first order conditions to solve optimization problem) will also be useful. Use of Excel is essential for assignments; you should be familiar with IF() and other common functions in Exce

Required Text

Corporate Finance by Jonathan Berk, Peter DeMarzo, and David Stangeland, 2024, 6th Canadian edition, Pearson (ISBN-13: 9780138173968).

You can (try to) use another edition of the text. However, any references I make to the textbook will be to the edition specified above. I will not be able to provide a mapping of my references to other editions of the book. Any material that appears in a chapter of the book that I have covered is fair game for exams.

Required Technologies

All course materials are posted online via Quercus. It is critical to ensure you have access to computers with a strong, stable internet connection. You are responsible for ensuring that you maintain regular backup copies of your files, use antivirus software, and schedule enough time when completing an assignment to allow for delays due to technical difficulties. Computer viruses, 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. If you need technical support, contact Information Commons Help Desk.

Evaluation

The following table explains how your class performance is evaluated. The dates provided are tentative and may change. If they do, I will give you as much advance notice as possible.

	Weight	Due date
Weekly Quercus quiz	10%	Sundays
Assignment	15%	Nov 29
Peer evaluation	5%	Nov 29
Midterm exam	30%	Oct 08
Final exam	40%	TBD
Bonus in-class quiz	+3%	3 random lectures

Weekly Quercus quiz (10%)

There are 9 weekly quizzes administered via Quercus. The weekly quizzes are designed to test your understanding of the materials that you have learned from this week's lecture. Quercus quizzes are released on the **Friday of each week** when we have a lecture, and you can take them any time **before 11:59pm on the Sunday immediately** following the release. Once the quiz is started, you have **1 hour to finish it**. Please only start the quiz when you are ready to take it.

Quizzes are open book. Students who miss a quiz will not be given a make-up quiz. However, you will have three chances to obtain bonus points (see "Bonus in-class quiz" for details).

Assignment (15%)

There is one assignment in this course. The assignment will be posted on Quercus roughly a month before its due date. The assignment is **due at 11:59pm on Nov 29**. Late assignments will not be accepted, and no extensions will be granted. A grade of zero will be assigned if you do not submit an assignment or if your assignment is late.

The assignment should be done in a 4-5 student group, and group members can be from either the LEC0101 or LEC5101 session of ECO358H1F. **Please submit your assignment group member list by Oct 25.** To do so, send one email per group containing your members' full names and session numbers with subject line **"ECO358H1F Assignment group"** to class email address ECO358H1F.a@course.utoronto.ca. For students who do not belong to any group list submitted by the deadline, I will group you with another 3-4 students randomly.

Peer evaluation (5%)

At the end of the semester, I will ask you to evaluate your group members about their participation in the assignment (and vice versa). I will consider your feedback in assigning them peer evaluation points. Peer evaluation is *optional*. If you do not submit, I will assume you give the highest score possible to all your group members. If you wish to submit, **please upload peer evaluation form to Quercus by Nov 29.**

Below is the peer evaluation form we will use at the end of the semester:

Please assess the work of your group members using the following criteria.

2 = Excellent work; was crucial to group's success

1 = Sufficient effort; contributed adequately to group

0 = Little or no effort; did not contribute or was detrimental to group

_____ Participation in developing ideas or planning project

_____ Participation in leading or facilitating discussion

_____ Cooperation with other group members

_____ Ease and familiarity with the materials

Exams (30% and 40%)

There are two exams in this course. The midterm exam is conducted in class (Oct 08) and covers the materials in lectures 1-3. The final exam is cumulative and covers all the material in the course, though it puts more emphasis on the later material. The final exam will be scheduled by the university during the period of Dec 6-21. The specific date, time, and location will be announced on Quercus once the final schedule is determined.

There will be no make-up exams. If you miss the midterm exam, your midterm's weight will be automatically shifted to the final exam. However, if you have participated in the midterm, you are not allowed to shift the midterm weight to the final exam. Final exam's weight cannot be shifted, so it is of utmost importance to make sure you are able to take the final exam. If you miss the final exam, you need to petition A&S.

Exams are conducted in person and are closed book. Exams are multiple-choice questions and graded by Crowdmark. On the exam day, you will need to bring a (1) a pencil (any pencil as long as it is dark enough) and eraser, (2) a non-communicating, non-programmable calculator, (3) scratch papers, and (4) a photo ID. I will prepare a formular sheet and provide it to you. The only thing that is graded is your Crowdmark bubble sheet at the end of the exam booklet, and you are responsible for ensuring that the answers marked on there are the ones you intended. It is critical that you write your name and student number on the exam booklet before you hand it in. If you don't, you risk getting a grade of zero. More details about exams will be provided when it gets closer to the exams.

Bonus quiz (+3%)

To incentivize you to come and participate in class, I will have bonus quizzes in three random lectures throughout the semester. These quizzes are graded for participation and not for correctness, and each is worth +1%. They are above and beyond the 100% grade and thus are bonus points that you can use to make up for missed Quercus quizzes and etc.

To participate in the bonus quizzes, you will need to be present in a lecture, use your cellphone camera to scan the QR code posted on the screen in the class, and fill in your name and ID and answer one simple question within a minute.

Schedule & Important Dates

	Week of	Topic	Chapter	Tutorials	Quercus Quiz
*	Sep 03	Introduction			
1	Sep 10	Tools	3-5	T1	Quiz 1
2	Sep 17	Valuing Bonds and Term Structure	6+6A	T2	Quiz 2
3	Sep 24	Valuing Stocks + EMH	7	T3	Quiz 3
4	Oct 01	Risk and Return	3.6, 10.1-10.5	T4	Quiz 4
5	**Oct 08**	**Midterm (Lectures 1-3)**		**No tutorial**	
6	Oct 15	Risk and Return of Portfolios	10.6-10.8 11.1-11.4	T5	Quiz 5

7	Oct 22	Portfolio Construction + CAPM	11.6-11.8 handout	T6	Quiz 6
*	Oct 29	Reading Week			
8	**Nov 05**	**Assignment walkthrough**		**No tutorial**	
9	Nov 12	Estimating the Cost of Capital APT and Multifactor Models	12.2-12.5 13	T7	Quiz 7
10	Nov 19	Financial Options	14	T8	Quiz 8
11	Nov 26	Option Valuation	15	T9	Quiz 9
*	**Nov 29**	**Assignment & Peer Evaluation due**			
*	**TBD**	**Final Exam (Cumulative)**			

Miscellaneous

Appealing your grade

Disagreement with the marking means that an error might have been made – for instance, there is ambiguity in interpreting the question or marker has missed some of your steps. You must submit your appeal to class email ECO358H1F.a@course.utoronto.ca no later than two weeks (10 business days) after the grades have been posted. 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. The *whole* exam (or assignment) will be regraded and, as a result, your total marks can go up or down.

Practice Material

Old midterms with solutions will be posted on Quercus. You can find practice problems in slides, weekly quizzes, tutorials, and textbook. Solutions to these problems will be posted to the corresponding lecture module on Quercus after tutorials.

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. 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 (link), 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.