



Economics UNIVERSITY OF TORONTO

ECO421/4050H1F: Capital Markets, (Ir)rationality, and (In)efficiencies
Summer 2024

Instructor: Harry G. G. Burke

Email: harry.burke@alumni.utoronto.ca

Office Hours: after every class & by appointment. Details posted online.

Website: g.utoronto.ca

Meetings: Monday and Wednesday from 5:10pm until 8:00pm in WW126.

Course Prerequisites: the Department of Economics strictly enforces these prerequisites.

-ECO200Y1/ECO204Y1/ECO206Y1, ECO220Y1/ECO227Y1 and 1.0 credits earned at ECO300+

-A course in asset valuation is an encouraged pre/corequisite

-comfort with basic multivariate calculus and statistics is stressed

Course Description:

This course in financial microeconomics assesses capital-market efficiency and equilibrium predictions in light of uncertainty, market design, agent behaviour and market microstructure. Starting with fundamental questions such as why markets and firms are organized as they are, we identify consistent conflicts of interest in capital markets amongst individuals, groups, organizations, and exchanges. Ultimately, we investigate questions such as when and if asset prices accurately reflect information and whether seemingly irrational participant behaviour can be rationalized. To address these questions, we use a combination of theoretical and empirical approaches taking the perspectives of both the academic and the practitioner.

Course Readings and alike:

Readings will be composed of works by academic economists and financial practitioners. Most readings will be available on the course website with clear instructions on how and where to access them. Readings that are optional will be clearly marked as such.

Evaluations:

Graded Problem Sets	10%
Midterm Examination	25%
Group Project & Presentation	25%
Final Examination	40%

Communication outside of class:

- you are responsible for monitoring the course website and email for announcements
- when using email please include the course code in the subject line

Graded Problem Sets

-there will be two graded Problem Sets, due May 24th and June 14th respectively. These, in addition to class discussions, readings, and casual homework will be the foundation for exam preparation. You are permitted to submit your work individually or as pairs.

Midterm Examination

-there will be a midterm exam held in class Wednesday May 29th. It will cover all material related to the first five classes. It will be worth 25% of your course grade.

Final Examination

-there will be a final examination held during the FAS exam period June 19th to June 24th inclusive. The final exam will be cumulative. It will be worth 40% of your course grade.

Group Project & Presentation

-details about the term project will be given in class. There will be a tremendous amount of flexibility given to you in choosing a topic or 'product' to deliver in hopes that you work on something you are particularly interested in and passionate about. Most projects will likely involve a small bit of written work and a presentation, discussion, or debate with me during the final class. The project will be worth 25% of your course grade.

Remark Requests

-all remark requests must be submitted to the instructor in writing with a clear explanation as to why you think an error in marking has been made. This must be done within 1 week of having your work returned to you.

Missed evaluations:

-Late **Problem Sets** will not be accepted as solutions will be posted immediately after the due date to aid in preparation for examinations that follow shortly after.

-Late **project** submissions and/or presentation absence for illegitimate reasons will be given a grade of zero. For University approved extraordinary circumstances (including illness), these situations will be dealt with on a case-by-case basis with the most likely outcome being that students submit alternative work as soon as possible. The instructor should be notified as soon as possible if issues are likely to arise in completing work on time.

-Students who miss the **midterm** due to a medical issue must notify me by email before the exam begins. You must provide documentation in support of your specific medical circumstances. This documentation can consist of an Absence Declaration (via ACORN) or the University's Verification of Student Illness or Injury (VOI) form. If you are declaring an absence on ACORN, please be sure to include my email address so that the system will notify me. The VOI form indicates the impact and severity of the illness, while protecting your privacy about the details of the nature of the illness. You can submit a different form (like a letter from a doctor), as long as it is an original document, and it contains the same information as the VOI. For more information on the VOI, please see <http://www.illnessverification.utoronto.ca>. For information on Absence Declaration Tool for A&S students, please see <https://www.artsci.utoronto.ca/absence>. If you get a concussion, break your hand, or suffer some other acute injury, you should register with Accessibility Services as soon as possible.

---I will normally schedule a make-up test for students who could not take the original test. Participating students will be notified of the date and time of the exam by email, possibly as late as the night before the make-up will take place. Note that this date will be after the course drop-deadline date. Any student who misses the make-up exam will get zero; there will be no make-up make-up. Note that providing false or misleading information in support of a request for a make-up is a serious academic offense.

-If you miss the **final exam** in this course for a legitimate reason (illness, etc) you will need to connect with your College Registrar to file a petition for a deferred exam. This deferred exam will be written at a later date as established by the Faculty of Arts & Science. Instructions can be found by clicking [here](#).

Plagiarism and Cheating

-Suspected cases of academic dishonesty will be taken very seriously and will be discussed in the first class. Please familiarize yourself with the Code of Behaviour on Academic Matters. Additional information is available by clicking [here](#) and [here](#). Note that being unaware of rules or policies is not a valid defense in cases of academic dishonesty

-Ouriginal: 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 [University's Plagiarism Detection Tool FAQ](#) page from Centre for Teaching Support & Innovation.

**The approximate lecture schedule and important dates for the course are as follows.
Note that content and/or order of delivery is subject to change.**

Lecture	Date	Location	Topic[s]	Readings, etc.	Deliverable [if any]
01	5:10pm to 8:00pm Monday May 6 th	WW126	~Course Introduction ~Uncovering COI in markets	~CFA Institute: COI Policy, Corporate Governance ~2023-03-27 Ted Rechtshaffen in FP ~2023-04-06 Ira Gluskin on BNN ~Mehran & Stulz; COI in FI	
02	5:10pm to 8:00pm Wednesday May 8 th	WW126	~Fisher's Separation Theorem, part 1	~Irving Fisher: second approximation to the theory of interest ~Spulber: Discovering Role of the Firm ~Friedman: Social Responsibility of Business	
03	5:10pm to 8:00pm Monday May 13 th	WW126	~Fisher's Separation Theorem, part 2 ~tutorial/Q&A ~Guest Speaker Michael Hlinka	~notes by Harry G. G. Burke ~Copeland, Weston, Kuldeep: Capital Markets, Consumption, and Investment	
04	5:10pm to 8:00pm Wednesday May 15 th	WW126	~Information, signaling, and agency problems for financial markets	~Nicholson: Asymmetric Information	
05	5:10pm to 8:00pm Wednesday May 22 nd	WW126	~market efficiency (informational) ~Q&A about class 4 material	~Malkiel: The EMH & its Critics ~Howard Marks: Understanding Market Efficiency (and its Limitations)	
*	Friday May 24 th				Graded Problem Set 1
06	5:10pm to 8:00pm Monday May 27 th	WW126	~market microstructure part 1 (operational efficiency, liquidity, and TCA)	~4 readings by Phil Mackintosh [Interns Guide to Market Structure, Cost of Routing Decisions, How Fast You Should Trade, Importance of Competitive Bid/Offer NBBO] ~Bias, Glosten, Spatt: A Survey of Microfoundations, Empirical Results, and Policy Implications	
****	5:10pm to 8:00pm Wednesday May 29 th	WW126	~Lectures 01 through 05 inclusive	~All relevant readings, lectures, and problem sets	Midterm Examination
07	5:10pm to 8:00pm Monday June 3 rd	WW126	~market microstructure part 2 (equity market fragmentation, regulations, and cases of COI)	~same as class 6. additional readings may be posted regarding case studies.	
***	Monday June 3 rd	Last day to drop course without academic penalty			
08	5:10pm to 8:00pm Wednesday June 5 th	WW126	~definitions of risk and their implications	~Howard Marks: Understanding Risk ~Howard Marks: Recognizing Risk ~Howard Marks: Controlling Risk	
**	7:00pm to 8:00pm Thursday June 6 th	WO25	~Guest Speaker Derek Bastien		Attendance optional
09	5:10pm to 8:00pm Monday June 10 th	WW126	~persistent issues and shortcomings in economic theory for finance	~Quantitative Analysis of Investor Behavior (DALBAR) Study ~Charlie Munger: Academic Economics ~Munger: Psychology of Human Misjudgment	
10	5:10pm to 8:00pm Wednesday June 12 th	WW126	~different perspectives on Conflicts of Interest; Guest Speaker Nick G. Pasquino ~wrapping up topics of wisdom & risk ~tutorial for final examination	~To be announced.	
*	Friday June 14 th				Graded Problem Set 2
11	5:10pm to 8:00pm Monday June 17 th		~course projects & presentations		
****	TBA by FAS: June 19 th to 24 th inclusive	TBA	~Entire course with slightly more weight given to materials presented after the midterm examination	~All relevant readings (including assignment readings), lectures, and problem sets	Final Examination