



# Economics UNIVERSITY OF TORONTO

**ECO421/4051H1F:** Capital Markets, (Ir)rationality, and (In)efficiencies  
**Summer 2025**

**Instructor:** Harry G. G. Burke

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

**Website:** [g.utoronto.ca](http://g.utoronto.ca)

**Meetings:** Mondays and Wednesdays from 5:10pm to 8:00pm in WO35

**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 recommended as a 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 & Other Resources:**

Readings will consist 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.

## **Communication Outside of Class:**

-You must monitor the course website and your email for announcements

-When using email, please include the course code in the subject line

## **Evaluations:**

Graded Problem Sets	20%
Midterm Examination	30%
Final Examination	50%

## **Graded Problem Sets**

-There will be two graded Problem Sets, due Friday May 23<sup>rd</sup> and Monday June 16<sup>th</sup> respectively. These, in addition to class discussions, readings, and ungraded homework, will be the foundation for exam preparation. You are permitted to submit your work individually or as pairs. Graded problem sets will account for 20% of your course grade.

## **Midterm Examination**

-There will be a midterm exam held at EX310 Wednesday May 28<sup>th</sup>. It will cover all material related to the first five classes. It will be worth 30% of your course grade.

## **Final Examination**

-There will be a final examination held during the FAS exam period June 19<sup>th</sup> to June 24<sup>th</sup> inclusive. The final exam will be cumulative. It will be worth 50% 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 one week of the date your work is returned.

**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.

-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 click [here](#). For information on Absence Declaration Tool for A&S students, please click [here](#). 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 to request a make-up exam 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 & 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

-Original: 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 5 <sup>th</sup>	WO35	~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 7 <sup>th</sup>	WO35	~Fisher's Separation Theorem, part 1	~Fisher: 2 <sup>nd</sup> approximation to the TOI ~Ross: First Principles of Finance ~Friedman: Social Responsibility of Business	
03	5:10pm to 8:00pm Monday May 12 <sup>th</sup>	WO35	~Fisher's Separation Theorem, part 2 ~tutorial/Q&A ~Guest Speaker <a href="#">Michael Hlinka</a>	~notes by Harry G. G. Burke ~Copeland, Weston, Kuldeep: Capital Markets, Consumption, and Investment	
04	5:10pm to 8:00pm Wednesday May 14 <sup>th</sup>	WO35	~Information, signaling, and agency problems for financial markets	~Nicholson: Asymmetric Information	
05	5:10pm to 8:00pm Wednesday May 21 <sup>st</sup>	WO35	~market efficiency (informational) ~Q&A about class 4 material	~Ross OR Copeland on market Efficiency ~Malkiel: The EMH & its Critics ~Marks: Understanding Market Efficiency	
*	Friday May 23 <sup>rd</sup>	online			Graded Problem Set 1
06	5:10pm to 8:00pm Monday May 26 <sup>th</sup>	WO35	~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 7:10pm Wednesday May 28 <sup>th</sup>	EX310	~Lectures 01 through 05 inclusive	~All relevant readings, lectures, and problem sets	Midterm Examination
07	5:10pm to 8:00pm Monday June 2 <sup>nd</sup>	WO35	~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 2 <sup>nd</sup>		Last day to drop without academic penalty		
08	5:10pm to 8:00pm Wednesday June 4 <sup>th</sup>	WO35	~definitions of risk and their implications ~Guest speakers <a href="#">Derek Bastien</a> & <a href="#">Brooke Biscoe Jr</a>	~Overby: What is volatility? ~Howard Marks: Understanding Risk ~Howard Marks: Recognizing Risk ~Howard Marks: Controlling Risk	
09	5:10pm to 8:00pm Monday June 9 <sup>th</sup>	WO35	~The Greeks & market efficiency ~class discussions: historical examination of strange prices in derivatives markets ~Guest Speaker <a href="#">Olivia Yu</a>	~Overby: Meet the Greeks ~notes by Harry G. G. Burke	
10	5:10pm to 8:00pm Wednesday June 11 <sup>th</sup>	WO35	~persistent issues and shortcomings in economic theory for finance ~different perspectives on Conflicts of Interest (Guest Speaker <a href="#">Nick G. Pasquino</a> )	~Quantitative Analysis of Investor Behavior (DALBAR) Study ~Charlie Munger: Academic Economics ~Munger: Psychology of Human Misjudgment	
11	5:10pm to 8:00pm Monday June 16 <sup>th</sup>	WO35	~course catchup and review ~course overview and tutorial for final exam	~same as class 10. Additional readings may be posted regarding case studies.	
*	Monday June 16 <sup>th</sup>	online			Graded Problem Set 2
***	TBA by FAS: June 19 <sup>th</sup> to 24 <sup>th</sup> inclusive	TBA	~Entire course	~All relevant readings (including assignment readings), lectures, and problem sets	Final Examination