

Huron University College
Economics 3346B
Financial Markets
Tuesdays 6-9pm, V210

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Course Description

This course is an introduction to financial economics. The course will focus on how individuals and financial firms make decisions to allocate scarce resources over time and the markets they use to do so.

The first part of the course will cover the main tenets of mean variance portfolio theory to determine efficient portfolios and select the optimum portfolio.

The second part of the course will examine standard equilibrium pricing models such as the CAPM and the APT.

Subsequently, the pricing of debt and equity instruments in their respective markets will be covered.

The course will conclude with an introduction to option pricing and other derivatives. Although much attention will be paid to the theoretical constructs of the material, throughout the course, the emphasis will be placed on applications.

Course Objectives

You will gain knowledge of the various types of financial instruments used in the financial industry.

At the end of the course you will be able to evaluate the appropriate use of various theories in financial economics.

You will be exposed to the major issues concerning financial markets.

You will be prepared to engage in debate on the intersection of finance and macroeconomic policy.

You will get exposure to the technical skills needed to be a financial analyst.

Enrolling in the Chartered Financial Analyst program is a major career move and requires a significant commitment. This course will give you an idea of what is involved in attaining the CFA.

Course Materials.

The **main text** for the course is Bodie Z., A. Kane, A.J. Marcus, S. Perrakis and P. Ryan, *Investments*, 7th Canadian edition McGraw Hill Ryerson 2011.

References that may be used include.

Baily, Roy, *The economics of Financial Markets*, Cambridge, 2005.

Cochrane John, *Asset Pricing*, Princeton University Press, 2001

Copeland, Weston and Shastri. *Financial Theory and Corporate Policy 4th edition* McGraw-Hill Ryerson 2005

Danthine J.P. and J. Donaldson, *Intermediate Financial Theory 2nd edition* 2005.

Elton E. J., M.Gruber, S. Brown and W. Goetzmann, *Modern Portfolio Theory and Investment Analysis 8th edition*, Wiley 2010

Fabozzi, Frank J., E. Neave and G.Zhou , *Financial Economics* Wiley 2012

Assessment

The course grades will assigned according to the following weights:

Two midterms worth 50 % of the final grade , one final exam worth 40% and **active** participation worth 10%

Dates and weights:

Midterm I Feb 4 worth 20%

Midterm II.....Mar 18 worth 30%

Participation reports.....Jan 21, Feb 25 and Apr 8

Final examSet by registrar in the exam period (April 11-30)

Active Participation; Each student will self select to be a group (max 5) which will constitute her/his group for the term. The group will act as managers of a hypothetical fund for a pension plan or a mutual fund.

They will initially have 100 million dollars to invest and the group must report on the composition of the fund , on the reasons for its asset allocation and its performance three times during the course.

Each statement must include economic analysis explaining the performance of the fund (positive and negative).

Report I due Jan 21:

This is a one or two page written report on what you chose to spend the 100 million dollars on. You may hold up to 10% of the fund back in cash- but 90% must be invested by this date.

You must trade or reallocate 50% of the fund total assets during the term. Assets may be held in passive investments i.e. ETFs but you can not “buy and hold” the entire portfolio over the term.

This criterion is required so students get exposure to making investment decisions.

Report II due Feb 25:

This is a one or two page written report on the progress of your fund. You will report all the reallocations you made and also the gains and losses to date. You may (or may not) give an overall return on your fund at this point.

The main objective here is for you to explain why you made the decisions you took. The decisions must be made in response to economic conditions or expectations or strategy you have designed for the portfolio.

Report III due Apr 8:

This is an oral presentation each group makes to the class (about 10 minutes) explaining what their fund invested in and what the outcomes are.

This will carry 50% of the participation mark.

All of the above will be discussed in more detail during our first class. Amendments to the above criteria and /or delivery dates may be made at that time.

Course Outline

The following outline is based on chapters from the text. Although we will follow the text there will also be some material done in class that will not appear in the text nor posted on Webct. This additional material may constitute the basis for exam questions.

This outline is **subject to additions and deletions as well as reordering of chapters and topics.** It is incumbent on all participants to keep abreast of any changes at all times. Changes to the outline will be obvious from the discussion taking place in class; nonetheless, any changes will be announced in class and may not be posted.

Introduction

Financial economics and its scope.....class notes

Financial markets and instruments.....chapter 2,3,4

Portfolio Theory

Risk and return.....chapter 5

Utility and risk aversion.....chapter 5

Optimal risky portfolio allocation.....chapter 6,

Equilibrium Models

The capital asset pricing model (CAPM).....chapter 7

Arbitrage pricing theory (APT).....chapter 8

Valuation of Debt and Equity

Bonds chapter 12

Term structure of interest rates.....chapter 13

Fixed income portfolios.....chapter 14

Equities.....chapter 15

***Market Efficiency**

Theories of market efficiency.....chapter 9

Active versus passive management.....chapter 20

***Derivative Markets**

Options and option valuation.....chapter 17, 18

Futures (if time allows).....chapter 19

Portfolio assessment techniques.....TBA

*** The order of these topics may be interchanged.**

Appendix to Course Outlines

Prerequisite Information

Students are responsible for ensuring that they have successfully completed all course prerequisites. Unless you have either the requisites for this course or written special permission from your Dean to enrol in it, you may be removed from this course and it will be deleted from your record. This decision may not be appealed. You will receive no adjustment to your fees in the event that you are dropped from a course for failing to have the necessary prerequisites.

Conduct of Students in Classes, Lectures, and Seminars

Membership in the community of Huron University College and the University of Western Ontario implies acceptance by every student of the principle of respect for the rights, responsibilities, dignity and well-being of others and a readiness to support an environment conducive to the intellectual and personal growth of all who study, work and live within it. Upon registration, students assume the responsibilities that such registration entails. The academic and social privileges granted to each student are conditional upon the fulfillment of these responsibilities. In the classroom, students are expected to behave in a manner that supports the learning environment of others. Students can avoid any unnecessary disruption of the class by arriving in sufficient time to be seated and ready for the start of the class, by remaining silent while the professor is speaking or another student has the floor, and by taking care of personal needs prior to the start of class. If a student is late, or knows that he/she will have to leave class early, be courteous: sit in an aisle seat and enter and leave quietly.

Please see the *Code of Student Rights and Responsibilities* at:

<http://www.huronuc.ca/CurrentStudents/StudentLifeandSupportServices/StudentDiscipline>

Technology

It is not appropriate to use technology (such as, but not limited to, laptops, PDAs, cell phones) in the classroom for non-classroom activities. Such activity is disruptive and is distracting to other students and to the instructor, and can inhibit learning. Students are expected to respect the classroom environment and to refrain from inappropriate use of technology and other electronic devices in class.

Academic Accommodation for Medical/Non-Medical Grounds

For UWO Policy on Accommodation for Medical Illness and a downloadable SMC see:

http://www.uwo.ca/univsec/pdf/academic_policies/appeals/accommodation_medical.pdf

[downloadable Student Medical Certificate (SMC): <https://studentservices.uwo.ca> under the Medical Documentation heading]

Students seeking academic accommodation on medical grounds for any missed tests, exams, participation components and/or assignments worth 10% or more of their

final grade must apply to the Academic Counselling office of their home Faculty and provide documentation. Academic accommodation will be determined by the Dean's Office in consultation with the instructor.

For non-medical grounds or for medical grounds when work represents less than 10% of the overall grade for the course, students seeking academic accommodation must apply to the Academic Counselling office of their home Faculty and provide documentation. Academic accommodation will be determined by the Dean's Office in consultation with the instructor.

Statement on Academic Offences

Scholastic offences are taken seriously and students are directed to read the appropriate policy, specifically, the definition of what constitutes a Scholastic Offence, at the following Web site:

http://www.uwo.ca/univsec/pdf/academic_policies/appeals/scholastic_discipline_undergrad.pdf

Statement on Academic Integrity

The International Centre for Academic Integrity defines academic integrity as "a commitment, even in the face of adversity, to five fundamental values: honesty, trust, fairness, respect, and responsibility. From these values flow principles of behaviour that enable academic communities to translate ideals to action." (CAI Fundamental Values Project, 1999).

A lack of academic integrity is indicated by such behaviours as the following:

- Cheating on tests;
- Fraudulent submissions online;
- Plagiarism in papers submitted (including failure to cite and piecing together unattributed sources);
- Unauthorized resubmission of course work to a different course;
- Helping someone else cheat;
- Unauthorized collaboration;
- Fabrication of results or sources;
- Purchasing work and representing it as one's own.

Academic Integrity: Importance and Impact

Being at university means engaging with a variety of communities in the pursuit and sharing of knowledge and understanding in ways that are clear, respectful, efficient, and productive. University communities have established norms of academic integrity to ensure responsible, honest, and ethical behavior in the academic work of the university, which is best done when sources of ideas are properly and fully acknowledged and when responsibility for ideas is fully and accurately represented.

In the academic sphere, unacknowledged use of another's work or ideas is not only an offence against the community of scholars and an obstacle to academic productivity. It may also be understood as fraud and may constitute an infringement of legal copyright.

A university is a place for fulfilling one's potential and challenging oneself, and this

means rising to challenges rather than finding ways around them. The achievements in an individual's university studies can only be fairly evaluated quantitatively through true and honest representation of the actual learning done by the student. Equity in assessment for all students is ensured through fair representation of the efforts by each.

Acting with integrity at university constitutes a good set of practices for maintaining integrity in later life. Offences against academic integrity are therefore taken very seriously as part of the university's work in preparing students to serve, lead, and innovate in the world at large.

A university degree is a significant investment of an individual's, and the public's, time, energies, and resources in the future, and habits of academic integrity protect that investment by preserving the university's reputation and ensuring public confidence in higher education.

Students found guilty of plagiarism will suffer consequences ranging from a grade reduction to failure in the course to expulsion from the university. In addition, a formal letter documenting the offence will be filed in the Dean's Office, and this record of the offence will be retained in the Dean's Office for the duration of the student's academic career at Huron University College.

All required papers may be subject to submission for textual similarity review to the commercial plagiarism detection software under license to the University for the detection of plagiarism. All papers submitted for such checking will be included as source documents in the reference database for the purpose of detecting plagiarism of papers subsequently submitted to the system. Use of the service is subject to the licensing agreement, currently between The University of Western Ontario and Turnitin.com.

Computer-marked multiple-choice tests and/or exams may be subject to submission for similarity review by software that will check for unusual coincidences in answer patterns that may indicate cheating.

Personal Response Systems ("clickers") may be used in some classes. If clickers are to be used in a class, it is the responsibility of the student to ensure that the device is activated and functional. Students must see their instructor if they have any concerns about whether the clicker is malfunctioning. Students must use only their own clicker. If clicker records are used to compute a portion of the course grade:

- the use of somebody else's clicker in class constitutes a scholastic offence,
- the possession of a clicker belonging to another student will be interpreted as an attempt to commit a scholastic offence.

Policy on Special Needs

Students who require special accommodation for tests and/or other course components must make the appropriate arrangements with the Student Development Centre (SDC). Further details concerning policies and procedures may

be found at:

http://www.sdc.uwo.ca/ssd/?requesting_acc

Attendance Regulations for Examinations

A student is entitled to be examined in courses in which registration is maintained, subject to the following limitations:

- 1) A student may be debarred from writing the final examination for failure to maintain satisfactory academic standing throughout the year.
- 2) Any student who, in the opinion of the instructor, is absent too frequently from class or laboratory periods in any course will be reported to the Dean of the Faculty offering the course (after due warning has been given). On the recommendation of the Department concerned, and with the permission of the Dean of that Faculty, the student will be debarred from taking the regular examination in the course. The Dean of the Faculty offering the course will communicate that decision to the Dean of the Faculty of registration.

Class Cancellations

In the event of a cancellation of class, every effort will be made to post that information on the Huron website, <http://www.huronuc.ca/AccessibilityInfo> ("Class Cancellations").

Accessibility

Huron University College strives at all times to provide its goods and services in a way that respects the dignity and independence of people with disabilities. We are also committed to giving people with disabilities the same opportunity to access our goods and services and allowing them to benefit from the same services, in the same place as, and in a similar way to, other customers. We welcome your feedback about accessibility at Huron. Information about how to provide feedback is available at: <http://www.huronuc.ca/AccessibilityInfo>

Mental Health @ Western

Students who are in emotional/mental distress should refer to Mental Health @ Western <http://www.uwo.ca/uwocom/mentalhealth/> for a complete list of options about how to obtain help.

Program and Academic Counselling

Economics students registered at Huron who require advice about modules and courses in Economics should contact Dr. Brendan Murphy, Chair, Department of Economics, murphy2@huron.uwo.ca, 519-438-7224 ext. 246. Students should contact Academic Counselling on other academic matters. See the Academic Counselling website for information on services offered. <http://huronuc.ca/CurrentStudents/StudentLifeandSupportServices/CounselorsCounsellingServices>