

Huron University College
Economics 3346
Financial Markets

D. McKeon
Winter, 2022

Office Hours.
Tuesday 12-1 depending on public health restrictions.
Office A8

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 other equilibrium models.

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

The course will conclude with an introduction to option pricing and other derivatives. Although much attention is 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, 9th 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

Classes

You are expected to **attend** every lecture in its entirety. Questions on quizzes or tests may be based on topics covered in the lectures. Not all topics are covered in the textbook.

Assessment

The course grades will assigned according to the following weights:

First Term Test25%

Second Term Test..... .34 % NOT SRA ELIGIBLE

Reports/Presentation.....32% NOT SRA ELIGIBLE

*Participation/quizzes9%

The participation mark will include **participation in quizzes and general classroom activity. This may include you being asked questions directly by the instructor. Absolutely no make ups for missed class work or quizzes.**

Each student will self-select to be a group (max 4) which will constitute her/his group for the term. The group will act as managers of a hypothetical fund for a pension plan, an institutional investor or a family office.

Your group will initially have 100 million dollars to invest in your fund .The group must report on the composition of the fund, on the reasons for its asset allocation and its performance twice during the course.

Report I due Jan 31

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 cannot “buy and hold” the entire portfolio over the term.

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

Report II due Mar 14, 21, 28 :

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 is where most of the thirty marks will be earned. Here you prepare a PPT deck presenting your fund and its results. The most import part of this assignment is **to use economics reasoning** in explaining why you invested as you did and how the markets responded during this investment period.

All of the above will be discussed in more detail during our first class.

Tests

Test I..... **January 31**

Test II..... **March 14**

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 OWL. This additional material may constitute the **basis for exam questions**. In addition, readings may be assigned from time to time. **These readings are also subject to examination**.

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.

Portfolio Theory

Risk and return.....chapter 5

Utility and risk aversion.....chapter 6

Optimal risky portfolio allocation.....chapter 7

Equilibrium Models

The capital asset pricing model (CAPM).....chapter 8, 9

Arbitrage pricing theory (APT).....chapter 10

Market efficiency.....chapter 11

Valuation of Debt and Equity

Bonds chapter 14

Term structure of interest rates.....chapter 15

Fixed income portfolios.....chapter 16

Equities.....chapter 17,18

Derivative Markets

Options and option valuation..... chapter 20,21

Futures (if time allows).....chapter 22

Portfolio Assessment Techniques..... ch. 24

***Miscellaneous Topics**

Macroeconomics and industry analysis.....

Active versus passive management...

Introduction to risk management...

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

Missed Assessment.

Academic counselling must notify the instructor that you are eligible for accommodation for any missed assessment or course requirement not covered by SRA policy.

Missed quiz marks may be prorated if notice from academic counselling is received stating you are eligible for accommodation.

If you miss the first midterm, **and notice from academic counselling** is received stating that you are eligible for accommodation, then your marks will be reallocated to the second midterm.

If you miss the second midterm, **even if you wrote the first midterm**, you will normally have to write a comprehensive term paper of at least 15 pages excluding tables and graphs. The paper must cite at least **five professional, technical, papers** from **academic journals** in finance or economics. Students must be prepared to answer questions from the material in their paper, including the sources cited. If answers to these questions are deemed unsatisfactory, you will **receive a grade of zero for the make-up paper.**

The make- up paper is **due one week after the date of the missed second midterm.**

If you **miss the presentation**, you will also have to write a paper, due before the end of the examination period that adheres to the criteria stated above.