

## Econ 435 – Financial Economics

### **Course outline, Summer 2024** (version 7 May 2024)

**ECON 435 A01 | CRN 31223 | TWF 2:30 – 4:20 in MAC D116**

**UVic Land Acknowledgement:** *We acknowledge and respect the Ləkʷəŋən (Songhees and Esquimalt) Peoples on whose territory the university stands, and the Ləkʷəŋən and WSÁNEĆ Peoples whose historical relationships with the land continue to this day.*

**Teacher:** Dr. Paul Schure, [schure@uvic.ca](mailto:schure@uvic.ca), office: BEC 336

**Office Hours:** Thursdays from 10.30 to noon. Default is by MS Teams

- Or by appointment → Email and **propose three 15-minute slots** for either an in-person meeting or a call through MS Teams. Feel free to invite fellow students to join you.

## Description

This is a course on asset pricing and financial markets, while Econ 454 focuses on corporate finance. Mastering concepts and models as well as demonstrating knowledge of some institutional detail will matter for successful completion of this class. The models are organized around three pricing principles: arbitrage pricing, present-value pricing, and general-equilibrium-asset pricing. These pricing principles are fairly abstract and the associated models are quite mathematical.

We will cover a lot of material and this is viewed to be a challenging course. **Doing this course in this term essentially means you are committing to a half-time job during the seven weeks of classes that the course takes. It requires you to be proactive, rather than reactive** (Success requires a “There are always things you can do” attitude!). The course material is best learned by hands-on involvement/active learning. There are two main active-learning components in this course. First, the test material is best mastered by working on analytical problems, namely the example in the textbook and the end-of-chapter questions. [Make sure to work in groups as your fellow students are an important resource! Success on the tests essentially requires that you have selected and done the relevant end-of-chapter questions. I am there to help you make the selection.] Secondly, there are two major group assignments, one on portfolio optimization and one involving fundamental analysis.

## Textbook and Calculator

The main textbook for this course is Investments, 10th Canadian Edition, by Bodie, Kane, Marcus, Switzer, Boyko, Panasian, and Stapleton, McGraw-Hill, Toronto, ON (“Bodie”). Buy either the physical text or the e-text. [We will not be working with “Smartbook”.]

- “Bodie” is the leading advanced undergraduate text in the field. It is designed to be consistent with the Chartered Financial Analysts (CFA) curriculum and also covers material in the Canadian Securities Course (CSC).

There will be other resources, including my own notes, some journal articles, and also, do check out the [fifth edition of “Corporate Finance” by Welch](#), which is freely available on the web.

The **SHARP EL-510** calculator, i.e. one of its many variations. No other calculators are permitted.

## **Classes and “keeping up”**

Make sure to attend classes as it simply helps, even for the vast majority of students who think that they learn better without attending classes. I will monitor class attendance from time to time. The idea is to encourage attendance, to gauge whether you are on track, to get to know the students, and to learn better to what extent attendance matters. Yet, attendance will not gain you any marks and missing classes will not cost you any marks (at least not directly). There is no need to let me know if you miss a class. Active participation is much appreciated and you'd serve the public good!

Lectures will normally *not* be recorded, but I will post the lecture slides, either before or after the lectures.<sup>1</sup> I will not re-teach any classes that you may have missed or give anybody any class highlights, even if you missed class for a valid reason.

Our classes may not cover the material comprehensively. You should not infer that omitted topics in lectures are not important. (For example, I try not to use lecture time on topics that I believe are better mastered by self-study). It is your task as a student to figure out what parts of the material are more relevant than others using your common sense and the available resources, including me.

I encourage that students study in groups, be it online, in-person, or a combination. It really helps, and you will have a support group in case you need to miss a class. If you would like me to help you connect up with fellow students, then please email me in the first or second week. I would be happy to try to match you to interested fellow students.

## **Communication**

*Brightspace* is used extensively for the course for readings, announcements, lecture notes, etc. All students are expected to be fully functional with the system and to log in daily or more frequently. Ask questions about content ideally through Brightspace (or Teams, we will figure out what works best soon), so not by email. This way your fellow students benefit from your questions as well.

*MS Teams*. There will also be a Teams site for this class, which you use for all non-personal questions, such as questions about the material or scheduling, etc. You can also reach me in the Teams chat to book an office hour.

*Emails*. Use emails only for non-MS-Teams questions, messages, or to book an office hour. Emails (i) must have logical subject headers that start with “Econ 435” and (ii) include your name and student number in the body of the message. The expectation is that correctly-sent emails are answered within 24 hours (both by the student and the teacher). I may miss incorrectly sent emails.

*Grading concerns*. Analysing how your answers got graded is very useful! We will likely work with “inspection sessions” where you can review your test and write down any concerns and questions you may have. In any such inspection sessions, you won't be able to take your test with you, nor copy any content. Should any test be handed back, then review it independently and email me asap in case you have any questions or concerns. Again, I really don't mind and even appreciate it! But... your feedback/email should make very clear whether you have a question or a concern. All grading concerns should normally be initiated, and ideally dealt with, no later than a week after the tests were returned. After one week your grade is final.

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<sup>1</sup> The lecture slides will presumably help you, but they are, as you are aware, still a poor substitute for attending classes.

## Grading

**Grading scheme.** Your final grade will be determined as follows:

A Quiz worth 5% [May 21, in-person (on Ch.1-3)]

A Portfolio Assignment\* worth 15% [Due May 31]

An Analyst Assignment\* worth 15% [Due June 11]

The Midterm exam, which is worth 25% [June 14, in class (on Ch. 4, 11, 12, 14, 15, 16, and 18)]

The Final exam, which is worth 40% [June 28, in class. It will be almost cumulative]

\* Assignments are split into components (e.g. earlier parts, in-class presentations, etc), which are due earlier. They are done in groups of normally three students.

### **Mandatory course components:**

- Attending in-person 14 or more of the in total 19 regular class-sessions in full [the other two class sessions are for the MT and the Final]
- Attempting both assignments, and obtaining a 60% grade or higher on one of them
- Attempting the Midterm exam and the Final exam.
- Obtaining a 40% grade or higher on the Final Exam

Failure to complete any of the mandatory course components will result in a grade of “N” regardless of your cumulative percentage on the course according to the grading scheme above. N is a failing grade and factors into GPA as a value of 0.

### **Grading Scale:**

A+	90-100%
A	85-89%
A-	80-84%
B+	77-79%
B	73-76%
B-	70-72%
C+	65-69%
C	60-64%
D	50-59%
F or N	0-49%

Students should review the University’s more detailed [summary of grading](#).

### **Missing assessments / Possible accommodation**

Should students encounter a situation where they miss an exam or cannot submit an assignment at its due date, they may qualify for an academic concession. Students are required to indicate the specific grounds on which they are requesting an academic concession and to provide a justification outlining the impact of the circumstances on their ability to complete course requirements. Consideration for missed examinations may be given on the basis **of a correctly reported, as well as timely reported, valid reason** (valid reasons may include illness, an accident, a family affliction). If you miss any of the tests for a valid reason then I require that you let me know **by the starting time of the test** at the very latest and by **filling in and emailing me this form**. (See “communication” above on how to format emails you send me) In case you miss the final exam, then fill in a **request for a deferral** (please, cc me on the email & please, still complete the deferral form by the start of the final exam at the latest).

## **Course Policies**

This course adheres to the [Undergraduate Course Policies](#) of the Department of Economics that deal with the following issues:

- Academic concessions
- Academic integrity (plagiarism and cheating)
- Attendance
- Grading
- Inclusivity and diversity
- Late adds
- Late assignments
- Repeating courses
- Review of an assigned grade
- Sexualized violence prevention and response
- Students with a disability
- Term assignments and debarment from examinations
- Travel plans
- Waitlists

The following policies are explicitly included because of their importance.

## **Waitlist Policies**

- Instructors have no discretion to admit waitlisted students or raise the cap on the course.
- Students on the waitlist should discuss with the instructor how to ensure they are not behind with coursework in the event they are admitted.
- Registered students who do not participate as specified in this outline during the first 7 calendar days from the start of the course may be dropped from the course.
- Registered students who decide not to take the course are responsible for dropping the course and are urged to do so promptly out of courtesy toward waitlisted students.
- Waitlist offers cease after the last date for adding courses irrespective of published waitlists.

## **Academic Integrity**

Academic integrity requires commitment to the values of honesty, trust, fairness, respect, and responsibility. Students are expected to observe the same standards of scholarly integrity as their academic and professional counterparts. A student who is found to have engaged in unethical academic behaviour, including the practices described in the [Policy on Academic Integrity](#) in the University Calendar, is subject to penalty by the University.

Review [What is Plagiarism](#) for the definition of plagiarism. Note: Submitted work may be checked using plagiarism detection software.

## **Student Code of Conduct**

The Humanities, Science, and Social Sciences Faculties have adopted this [Student code of conduct](#). Please, review.

## **University Policies**

- University Calendar - Section "[Information for all students](#)"
- [Creating a respectful, inclusive and productive learning environment](#)

- [Accommodation of Religious Observance](#)
- [Student Conduct](#)
- [Non-academic Student Misconduct](#)
- [Accessibility](#)
- [Diversity / EDI](#)
- [Equity statement](#)
- Discrimination and Harassment [Policy](#)
- [Policy on Human Rights, Equity and Fairness](#) - The University is committed to promoting, providing and protecting a positive, supportive and safe learning and working environment for all its members.

### **Sexualized Violence Prevention & Response**

UVic takes sexualized violence seriously, and has raised the bar for what is considered acceptable behaviour. Students are encouraged to learn more about how the university defines sexualized violence and its overall approach by visiting [www.uvic.ca/svp](http://www.uvic.ca/svp). If you or someone you know has been impacted by sexualized violence and needs information, advice, and/or support please contact the sexualized violence resource office in Equity and Human Rights (EQHR). Contact [svpcoordinator@uvic.ca](mailto:svpcoordinator@uvic.ca).

### **Resources for Students**

[UVic Learn Anywhere](#) - UVic Learn Anywhere is the primary learning resource for students that offers many learning workshops and resources to help students with academics and learning strategies.

[Centre for Accessible Learning](#) - Students with diverse learning styles and needs are welcome in this course. In particular, if you have a disability/health consideration that may require accommodations, you are free to approach me; however, you must register with the [Centre for Accessible Learning](#) (CAL) for formal arrangements to be made. The CAL staff are available by appointment to assess specific needs, provide referrals and arrange appropriate accommodations. The sooner you let us know your needs the quicker we can assist you in achieving your learning goals in this course.

[Centre for Academic Communication](#) - Offers coaching on **academic integrity**, including preventing accidental plagiarism. Provides support to students with time management, reading, writing, speaking, understanding academic expectations, and other aspects of academic communication as well as creating academic posters, blogposts, PowerPoint slides, and e-portfolios.

[Health Services](#) - University Health Services (UHS) provides a full service primary health clinic for students, and coordinates healthy student and campus initiatives.

[Support Connect](#) - a 24/7 mental health support service for students

•Toll-free (calls from North America): 1-844-773-1427

•International collect calls: 1-250-999-7621

[Counselling Services](#) - Counselling Services can help you make the most of your university experience. They offer free professional, confidential, inclusive support to currently registered UVic students.

[Indigenous Student Services](#) - Indigenous UVic students have access to many sources of support on campus. Before, during and after your time at UVic, you are encouraged to explore programs and services available to you, such as [Indigenous counselling services](#) and the [Elders in Residence](#), as well as non-academic programs that may be of interest to you.

[International Student Support](#) - The University of Victoria offers a number of resources to support

international students as they pursue their studies. UVic's [International Centre for Students](#) is the primary office supporting international students on campus at the university-wide level and provides various supportive programs through the [UVic Global Community Initiative](#), including a Mentorship Program and Conversation Partner Program.

For academic advising-related questions, students in the Economics Department are also encouraged to meet with the Economics Undergraduate Advisor (Brooklynn Comish-Trimble, [ecadvice@uvic.ca](mailto:ecadvice@uvic.ca)) as well as an academic advisor in the [Academic Advising Centre](#) early in their studies to help map out a plan to declare a major and complete university program requirements. Other resources include the [Centre for Academic Communication](#) and the [Math and Stats Assistance Centre](#).

The International Student Liaison in the Economics Department is Dr. Paul Schure who can help you connect with other international and domestic students in the Department. His email address is [schure@uvic.ca](mailto:schure@uvic.ca). Please, reach out if you are interested.

### **Course Experience Survey (CES)**

I value your feedback on this course. Towards the end of term you will have the opportunity to complete a confidential course experience survey (CES) regarding your learning experience. The survey is vital to providing feedback to me regarding the course and my teaching, as well as to help the department improve the overall program for students in the future.

When it is time for you to complete the survey, you will receive an email inviting you to do so. If you do not receive an email invitation, you can go directly to the [CES log-in](#). You will use your UVic NetLink ID to access the survey, which can be completed on your laptop, tablet or mobile device. I will remind you nearer the time, but please be thinking about this important activity, especially the following three questions, during the course.

What strengths did your **instructor** demonstrate that helped you learn in this course?

Please provide specific suggestions as to how the **instructor** could have helped you learn more effectively. Please provide specific suggestions as to how this **course** could be improved.

## Course Topics

The lectures generally follow readings from Bodie. Some extra reading material may be announced down the line. The list of topics below is **not** necessarily discussed in the order below in our course. Some parts will be done entirely/primarily by self-study, including Bodie Chapters 1-4, 8, 17

### INTRODUCTION

1. **Basics / Review** [Bodie Chapters 1-4 & Welch Ch.1 (primarily done by self-study!)]
  - Topics include: Real vs. Financial Assets; Taxes; Compound Interest; Real vs. Nominal Rates of Return; Stock Markets, and Stock Listings; Leverage, and Margin Transactions; The return-risk trade-off; plus institutional knowledge about assets, markets, and financial institutions

### GENERAL-EQUILIBRIUM-ASSET PRICING

2. **Risk Aversion, Portfolio Theory and CAPM** [Bodie Chapters 5-7 & 9 (+ perhaps parts of Ch.13)]
  - Review Chapter 5 independently. Chapters 6-7 address Portfolio Choice under Risk Aversion & Optimal Risky Portfolios. Chapter 9 discusses the Capital Asset Pricing Model (CAPM)
3. **Market Efficiency (EMT)** [Bodie Chapter 11, Grosman and Stiglitz (1980). Likely also a part of Ch.12, on Behavioral Finance]
  - Strong, Semi-Strong, and Weak Forms of Information Efficiency, Innovations in Information and Prices, Random Walks.

### PRESENT-VALUE PRICING

4. **Common Stock Valuation** [Bodie Chapter 18]
  - Some remarks about Chapter 17, on Industrial Organisation
  - Fundamental Analysis, Dividend Discount Models
5. **PV Pricing of Fixed-Income Securities** [Bodie Chapter 14]
  - Bond Yields and Bond Prices, Mortgages

### ARBITRAGE PRICING (a.k.a. “No-arbitrage pricing”)

6. Maybe: Index Models and APT [Bodie Chapters 8 and 10]
7. **Fixed-Income Securities (cont.)** [Bodie Chapters 15-16]
  - The Yield Curve and the Term Structure of Interest Rates
  - Duration and the sensitivity of bond prices
  - Managing Bond Portfolios
8. **Arbitrage Pricing of Derivative Assets** [Bodie Chapters 20-21]
  - Options: characteristics, strategies, pricing

### BROADER PERSPECTIVES

9. **Broader perspectives on Finance** [Readings on Brightspace]
  - The Limits of Arbitrage (and what does that mean for the EMT?)
  - Corporate Social Responsibility and ESG

## Tentative Course Schedule

(readings and tutorial guides on Brightspace; chapters refer to the main textbook, i.e. Bodie et al.)

May 14: Course overview and Ch.1

May 15: Ch.2 lecture and tutorial

May 17: Ch.3 tutorial and Ch.4 lecture

May 21: **Quiz** and Ch.5 lecture

May 22: Ch.6 lecture and tutorial

May 24: Ch.7 lecture

May 28: Ch.7 lecture tutorial

May 29: Ch.9 lecture and tutorial

May 31: Ch.11 lecture and tutorial

Note: **Portfolio assignment due on May 31** [Submit twice: Brightspace and dropbox by BEC 360]

June 4: Ch.12 lecture, Zingales (2010), and part of Gromb and Vayanos (2010)

June 5: Ch.18 lecture and tutorial

June 7: Ch.14 lecture & Ch.15 lecture

Note: **Analyst assignment due on June 10** [Submit twice: Brightspace and dropbox by BEC 360]

June 11: Ch.15 tutorial & Ch.16 lecture

June 12: Ch.16 tutorial and MT exam prep hour.

June 14: **Midterm Exam**

June 18: Ch.20 lecture and tutorial

June 19: Ch.21 lecture

June 21: Ch.21 tutorial

June 25: Broader perspectives: Kim and Yoon (2021) & class discussion

June 26: Course review and Final exam Q&A session

June 28: **Final Exam**