

FINANCIAL ECONOMICS
ECONOMICS 3332A-001
Department of Economics
Western University

September 2018

Instructor: Sermin Gungor
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Office Hours: TBD
Classroom meeting time(s) & location: Monday 14:30-15:30; Wednesday 13:30-15:30
Course website: <https://owl.uwo.ca/portal>
Undergraduate inquiries: 519-661-3507 SSC Room 4075 or econugrd@uwo.ca

Registration:

You are responsible for ensuring you are registered in the correct courses. If you are not registered in this course, the Department will not release any of your marks until your registration is corrected. You may check your timetable by using the Login on the Student Services website at <https://student.uwo.ca>. If you notice a problem, please contact your home Faculty Academic Counsellor immediately.

Prerequisite Note:

The prerequisites for this course are **Economics 2221A/B** and **Economics 2261A/B**.

You are responsible for ensuring that you have successfully completed all course prerequisites, and that you have not taken any anti-requisite courses. Lack of prerequisites may not be used as a basis for appeal. If you are found to be ineligible for a course, you may be removed from it at any time and you will receive no adjustment to your fees. This decision cannot be appealed.

If you find that you do not have the course prerequisites, it is in your best interest to drop the course well before the end of the add/drop period. Your prompt attention to this matter will not only help protect your academic record, but will ensure that spaces become available for students who require the course in question for graduation.

Course Objectives:

This course provides an introduction to the theory and methods of the economics of financial markets. It develops concepts and quantitative tools for understanding time value of money, risk and return trade-off, portfolio selection, equilibrium asset pricing, arbitrage, fixed income securities, and derivatives.

Course Learning Outcomes:

After successful completion of this course, the students will be able to:

1. Evaluate risk and return trade-off in financial assets.
2. Design optimal portfolio allocation strategies.
3. Price equity and fixed-income assets.
4. Develop arbitrage trading strategies.
5. Price derivative securities.

The students are expected to be able to understand and apply quantitative methods.

Textbooks:

- Bodie, Kane, Marcus, Perrakis, Ryan, Switzer, *Investments*, Canadian edition
- Lecture notes, practice problems and supplemental material distributed on the course webpage.

Software:

Students are expected to have access to and familiarity with Microsoft Excel. Other statistics packages (R, Matlab, Python, etc.) may be used but not required. Please note that, the computer component of this class is mandatory.

Grading:

Grades are based on the following weighting:

Assignments (2 take home quizzes)	40%
Midterm (in class) -- October 24, 2018	25%
Final	35%

Assignments:

To keep everyone up to date with the course readings and practice problems, I will distribute two individual take-home assignments. These assignments will be practical applications of the material we cover in class and they will require Excel knowledge for statistical calculations. You are allowed to use any class materials when working on these assignments. However, you are not allowed to consult your classmates.

Exams:

- The Midterm and Final are in-class, closed book and closed notes.
- You are allowed to a cheat sheet (one 8.5 by 11 inch sheet of notes). Use the cheat sheet wisely.
- You will need a calculator that can compute natural logarithms and raise numbers to arbitrary powers.
- Cheat sheets and calculators may not be shared between students.

- Devices capable of sending or receiving wireless signals must be turned off or stored with other personal belongings in the back of the room (or other designated area) prior to the exam start. Such devices may NOT be used as calculators or for any other purpose during the exam.

The **Midterm** is scheduled for **Wednesday, October 24, 2018**. Students with a conflict should let me know well before midterms (at least 4 weeks). Unless you are ill or face a significant emergency, there will be no make-up midterm. Students, who are not present at the midterm exam due to illness, are required to provide a medical certificate. Midterm covers all the material up to exam date.

Final exam is a comprehensive exam covering all the material in the course. Please note that the final exam is scheduled by Western's Program office. I will not permit anyone to take the final exam at another time unless you are ill or face a significant emergency. Students, who are not present at the final exam due to illness, are required to provide a medical certificate. Students with a conflict with the date of the final exam must let me know well before final (at least 4 weeks).

Practice Problems:

Practice problems with solutions are included on the course website to help you practice applying the concepts we cover in class. You need not turn them in. I strongly advise you to try to do the problem sets on your own, first, without the aid of the solutions. We will go over your questions about the problem sets in the lectures before the midterm and final. You can work through these problems in groups. The practice problems are excellent way of preparing for the exams.

Useful Resources:

Employers are looking to hire staff who are knowledgeable about the current events. Read *Wall Street Journal* and/or *Financial Times* on a daily basis and the weekly issue of *The Economist*. Some other resources that will keep you up to date about current events are:

- **Bank of Canada Financial System Review**
A detailed review of developments in the financial system and an analysis of policy directions in the financial sector. Published twice a year.
<http://www.bankofcanada.ca/publications/fsr/>
- **Bank of Canada Review**
A semi-annual publication featuring articles related to the Canadian economy and to central banking.
<http://www.bankofcanada.ca/publications/boc-review/>
- **Liberty Street Economics**
A New York Fed blog that features insight and analysis from economists working at the intersection of research and policy.
<http://libtystreeteconomics.newyorkfed.org/>

Please Note
Department Policies for 2018-2019

Remember that the University expects all students to take responsibility for their own Academic Programs. Students should also check their registration to ensure they are enrolled in the correct courses.

1. Guidelines and policies for the Faculty of Social Science and the Department of Economics are posted online in the current Western Academic Calendar at:
<http://westerncalendar.uwo.ca>.
2. Students must familiarize themselves with the “Rules of Conduct for Examinations”
http://www.uwo.ca/univsec/pdf/academic_policies/exam/administration.pdf.
3. **Cheating as an academic offence:** Students are responsible for understanding what it means to “cheat”. The Department of Economics treats cheating incidents very seriously and will investigate any suspect behavior. Students found guilty will incur penalties that could include a failing grade or being barred from future registration in other Economics courses or programs. The University may impose further penalties such as a notation on an official academic transcript, suspension or expulsion.
4. **Plagiarism:** Students must write their essays and assignments in their own words. When taking an idea/passage from another author, it must be acknowledged with quotation marks where appropriate and referenced with footnotes or citations. Plagiarism is an academic offence (see Scholastic Discipline for Undergraduate Students in the Western Calendar at http://westerncalendar.uwo.ca/PolicyPages.cfm?Command=showCategory&PolicyCategoryID=1&SelectedCalendar=Live&ArchiveID=#Page_20).

Western University uses software to check for plagiarism and students may be required to electronically submit their work. Those found guilty will be penalized as noted in point 3.

5. It is a Department of Economics policy that **NO** assignments be dated, stamped or accepted by staff. Students must submit assignments in class or to the instructor during office hours.
6. When appealing a mark, students should refer to the Student Academic Appeals section in the current Western Academic Calendar at:
http://westerncalendar.uwo.ca/PolicyPages.cfm?Command=showCategory&PolicyCategoryID=1&SelectedCalendar=Live&ArchiveID=#Page_14.
Please note the relevant deadlines.

The Department will not consider an appeal unless an attempt has been made to settle the matter with the instructor first. Students who remain dissatisfied with the outcome may proceed with a written appeal (e-mails are not acceptable) to the Undergraduate Director in Economics, stating the reasons for their appeal. A checklist is provided at:
http://economics.uwo.ca/undergraduate/program_counselling/responsibilities_policies.html#appeals.

7. Systematic adjustments of a class grade distribution (either up or down) can occur in Economics courses. The fact that grades have been adjusted is **not** grounds for an appeal.
8. Note the following add and drop deadlines:

Deadline to <u>add</u> a first term half course:	Friday September 14, 2018
Deadline to <u>drop</u> a first term half course:	Monday November 12, 2018
9. Faculty of Social Science policy states that oversleeping or misreading an exam schedule is NOT grounds for a makeup. This rule applies to midterm and final exams in the Department of Economics.

Policy Regarding Makeup Tests and Final Examinations

*Academic accommodation will **not** be granted automatically on request. Students **must** demonstrate by documentation that there are **compelling** medical or compassionate grounds before academic accommodation will be considered.*

Students who proceed to write a test or examination must be prepared to accept the mark. Rewriting tests or examinations, or having their value reweighted on a retroactive basis, is **not** permitted. Students must also book travel arrangements AFTER final exam dates have been posted as they must not conflict with test or final exams.

Unless medically incapable of doing so, students must notify their instructor prior to the test date or at least within **24 hours** when requesting a makeup exam. Failure to follow this procedure may result in denial of academic accommodation and a grade of zero. Students should also set up an appointment as soon as possible to meet with their instructor. If the instructor is not available, send an email message, copying the Undergraduate Coordinator at econugrd@uwo.ca. **Notifying instructors of a missed exam does not automatically entitle students to a makeup.**

Students who seek a makeup exam must also provide supporting medical or other relevant documentation that their absence from a scheduled test or exam is beyond their control. Documentation should be submitted to the Academic Counselling Office of the student's *home* Faculty **as soon as possible (preferably within 24 hours of the scheduled test)**. Failure to follow this procedure may result in denial of academic accommodation and a grade of zero. If the documentation submitted is not acceptable, students will receive a zero for the missed test.

For personal illness, students may consult Student Health Services and request a Student Medical Certificate from the physician. If assessed by an off-campus doctor, students must obtain a certificate from his/her office at the time of the visit. The off-campus medical certificate form must also be used and can be found at:
http://www.uwo.ca/univsec/pdf/academic_policies/appeals/medicalform.pdf.

Notes stating "For Medical Reasons" are not considered sufficient.

For religious or compassionate circumstances, students should ask their Academic Counsellor what documentation to provide. If documentation is judged sufficient, the Academic Counsellor will issue a Recommendation for a Special Examination (a single form for midterms or a triple-

color form for final exams). Once students have this form, they must contact their instructor as soon as possible to make arrangements. Even if approved by their Academic Counsellor, there is no guarantee that students will be allowed to write the makeup test/exam.

For final examinations, students need to seek permission from their *home* Faculty Counsellor, Instructor, and the Department Undergraduate Director. Failure to follow this procedure may result in a grade of zero. Students must ensure that the Special Examination form has been signed by the Instructor and Department Undergraduate Director and that the form is returned to the Academic Counselling Office for approval without delay. If approved, makeup examinations will be written within one month of the end of the exam period.

Policies Regarding Academic Accommodation

The Faculty of Social Science's policies regarding academic accommodation is found at http://counselling.ssc.uwo.ca/procedures/having_problems/index.html.

"Academic Rights and Responsibilities" are also outlined in the Western Calendar at <http://westerncalendar.uwo.ca/PolicyPages.cfm?PolicyCategoryID=1&command=showCategory&SelectedCalendar=Live&ArchiveID=>. Claiming that "you didn't know what to do" is not an acceptable excuse for not following the stated procedures.

Policy Regarding Class Attendance

If the instructor deems a student's class attendance as unsatisfactory, that student may be prohibited from writing the final examination. If there is intent to make use of this University policy, the student will be notified in writing.

Statement on Mental Health and Support Services

Students under emotional/mental distress should visit http://uwo.ca/health/mental_wellbeing/ for more information and a complete list of resources on how to obtain help.