

FOUNDATIONS OF FINANCIAL ECONOMICS ECONOMICS 2181B-001

Department of Economics
Western University

January 2023

Instructor: D. McKeon
Office: SSC 4052
Office Hours: Thursday 12:00 – 1:00 pm
Delivery mode: In-person
Classroom meeting time(s): M 8:30 – 9:30 am; W 8:30 – 10:30 am
Classroom Location: SSC 2032
Email: dmckeon@uwo.ca
Undergraduate Inquiries: econugrd@uwo.ca or 519-661-3507
Undergraduate Office: SSC 4057

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:

The prerequisite(s) for this course is (are) Economics 1021A/B and Economics 1022A/B, or Economics 2001A/B. The antirequisite(s) for this course is (are) Economics 2121A/B, Economics 2186A/B (if taken 2013-2014, 2014-2015), Economics 2300A/B, Economics 3332A/B, Economics 3346A/B, and MOS 3316A/B.

You are responsible for ensuring that you have successfully completed all course prerequisites, and that you have not taken an antirequisite course. Lack of prerequisites may not be used as basis of 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 in your fees. This decision can not be appealed.

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

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.

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, applications will be emphasized.

Course Objectives

Students will acquire knowledge of the various types of financial instruments used in the financial industry.

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

Students will acquire the skills necessary to engage in the debate on financial markets and monetary policy.

Students will acquire *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.

Required Course Materials

Textbook: Bodie Z., A. Kane, A.J. Marcus, S. Perrakis and P. Ryan, *Investments, 10th Canadian edition* McGraw Hill Ryerson 2019

Assessments & Grades

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

Midterm I.....	25%
Midterm II.....	25%
Final Test.....	50 %

Important Tentative Dates

Midterm I.....	Feb 8
Midterm II.....	March 15
Final Test.....	set by registrar.

Students MUST keep abreast of course developments on an ongoing basis. Any changes to the course material, dates or assessments **will be announced in class**. Failure to keep up with course changes or date deadlines will not be considered for grade accommodations.

No makeup tests will be given. A student who misses a test must provide documentation to the counseling office (not the professor) and if this documentation is accepted as a valid reason for missing a test then (and only then) the weight of the missed test will be reallocated. This is **the only method** of accommodation for missed tests that will be used in this course.

This course is subject to **course grade adjustments**. Adjustments are made to maintain the value of your degree. Your grade may be adjusted **up or down**. These adjustments will normally be made at the end of the semester after all grades have been processed. The normal overall average for this course is 68- 72.

Students who are opposed to this **policy should not take this course**.

Course Outline

Topics **may be added or deleted as the course progresses**. All changes to the outline, including any change to the order of topics taken up, **will be announced on OWL**. Failure to regularly monitor OWL cannot be used as an excuse for not knowing about changes.

Portfolio Theory

Risk and return..... Chapter 5

Utility and risk aversion.....Chapter 6

Optimal risky portfolio allocation.....Chapter 7

Equilibrium Models

The index model and the capital asset pricing model (CAPM).....Chapter 8, 9

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

Valuation of Debt and Equity

Bonds Chapter 14

Term structure of interest rates.....Chapter 15

Fixed income portfolios.....Chapter 16

Equities.....Chapter 18

***Derivative Markets**

Options and option valuation.....	Chapter 20,21
Futures	Chapter 22

<u>Portfolio Performance Techniques...</u>	Chapter 24
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***Market Efficiency**

Theories of market efficiency.....	Chapter 11
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Macroeconomics and Industry analysis.....	Chapter 17
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Professionalism, Privacy and Copyright:

- Students are expected to follow the [Student Code of Conduct](#).
- All lectures and course materials, including slides, presentations, outlines, and similar materials, are protected by **copyright**. Students may take notes and make copies of course materials for their own educational purposes only.
- Students may not record lectures, reproduce (or allow others to reproduce), post or distribute lecture notes, assessments, or any other course materials publicly and/or for commercial purposes without written consent.
- Recordings (audio or video) are not permitted without explicit, written permission. Permitted recordings may not be distributed or shared.

Please Note
Department & University Policies for Winter 2023

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, policies, and your academic rights and responsibilities** are posted online in the current Western Academic Calendar at: <http://westerncalendar.uwo.ca>. Claiming that “you didn’t know what to do” is not an acceptable excuse for not following the stated policies and procedures.

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 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 to the instructor.

6. **Appeals:** University policies and procedures for appealing a mark can be found in 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.**

Department of Economics procedures for appealing a mark can be found here: https://economics.uwo.ca/undergraduate/program_counselling/responsibilities_policies.ht

[ml#appeals](#). 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 to submit an appeal to econugrd@uwo.ca. Please follow the instructions and use the appeal form shown in the above link.

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 add a second term half course: **Tuesday, January 17, 2023**
- Deadline to drop a second term half course: **Tuesday, March 7, 2023**

Policy Regarding Makeup Tests and Final Examinations

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.

Policies Regarding Academic Accommodation

- 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. The Faculty of Social Science's policies on academic accommodation are found at https://counselling.ssc.uwo.ca/procedures/academic_consideration.html
- **Accommodation for Students with Disabilities:** Students with disabilities or accessibility challenges should work with Accessible Education (formerly SSD, see http://academicsupport.uwo.ca/accessible_education/index.html), which provides recommendations for accommodation based on medical documentation or psychological and cognitive testing. The accommodation policy can be found here: [Academic Accommodation for Students with Disabilities](#).
- **Rewriting Exams and Retroactive Reweighting are NOT Permitted:** Students who proceed to write a test or examination must be prepared to accept the mark. Rewriting tests or examinations, or retroactive reweighting of marks, is **not** permitted. Students must also book travel arrangements AFTER final exam dates have been posted as they must not conflict with tests 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 to the instructor, copying the Undergraduate Coordinator at econugrd@uwo.ca. **Notifying instructors of a missed exam does not automatically entitle students to a makeup.**

- For medical illnesses, 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/assessment. Student Medical Certificate (SMC) is available here: https://www.uwo.ca/univsec/pdf/academic_policies/appeals/medicalform.pdf
- **Documentation for Accommodation:** Individual instructors are not permitted to receive documentation directly from a student, whether in support of an application for consideration on medical grounds or for other reasons.
- **Western University policy on Consideration for Student Absence** is available here: https://counselling.ssc.uwo.ca/procedures/probation_rtw/appeals.html
- **Religious Accommodation:** Students should consult the University's list of recognized religious holidays and should give reasonable notice in writing, prior to the holiday, to the Instructor and an Academic Counsellor if their course requirements will be affected by a religious observance. Additional information is given in the [Western Multicultural Calendar](#).

Policy Regarding Class Attendance and Engagement:

If the instructor deems a student's attendance or engagement in the class to be unsatisfactory, that student may be prohibited from writing the final examination. Examples of unsatisfactory class engagement include frequent absences from an in-person or synchronous online class, lack of assignment submissions, and inadequate use of online course materials. Instructors who intend to make use of this policy will notify the student in advance.

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.

Statement on Remote Proctoring:

While Western intends to hold most classes, mid-terms, and finals in person, the London-Middlesex Health unity may require western to teach in a remote format. If this occurs, all assessments will be done remotely and may involve the use of remote proctoring software (i.e., Proctorio, ProctorTrack). Instructors will provide information on the details should the need arise.