

FOUNDATIONS OF FINANCIAL ECONOMICS ECONOMICS 2181A-001

Department of Economics
Western University

D. McKeon

September 2021

Office Hours: Friday 11:00 -1:00

Class Time & Location: Monday, Wednesday, Friday 8:30-9:30 SSC 2032

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Undergraduate Office: SSC 4075

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 1021A/B** and **1022A/B**, or **Economics 1020**, or **Economics 2001A/B**.

The antirequisites for 2181A are Economics 2121A/B, 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 anti-requisite course. 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 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.

Learning 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.

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 2019

(You can easily use earlier editions.)

Attendance

The course will be taught entirely in-person. All lectures will appear on a weekly basis just as if we were in a classroom. You are expected to **attend** every lecture **in its entirety**. Thus attendance is mandatory. Not all topics are covered in the textbook and any problems or topics covered in class may form the basis of examination questions.

All announcements concerning the course are announced in-person in class. Absence from class is not an excuse for not knowing about any adjustments to course material or assessments. **Failure to keep up with course changes will not be considered for grade accommodations.**

Assignments

There are **no problem sets that are you must hand** in for marks. However, I do problems in class and assign problems from time to time. You are advised to do the problems and, more importantly, understand the meaning of the results and relevance of the problem solving process. Often, but not necessarily, exam questions are loosely based on these examples. Additional readings/videos may be assigned as the course progresses- **THESE READINGS/VIDEOS ARE SUBJECT TO EXAMINATION**

Assessment

Dates

Test 1..... Oct 4
Test 2..... Nov 8

Weights:

Test I 20%
Test II..... 25%
Final..... 55%

No makeup tests will be given. If student misses a test/quiz, and has : 1) –reported their absence OR 2) has received accommodation from academic counselling then the weight of the missed test will be reallocated to the final test. This is **the only method** of accommodation for missed tests/quizzes that will be offered in this course.

Course Outline (tentative)

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

Introductory topics..... Class notes/slides
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

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

Portfolio Performance Techniques........ chapter 24

***Market Efficiency**

Theories of market efficiency.....chapter 11
Macroeconomics and Industry analysis.....chapter 17

*** Order of these topics may be reversed.**

N.B. This course is subject to **course grade adjustments**. This is a **departmental policy NOT the policy of the professor**. The professor has NO control over this policy. 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.

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

Please Note
Department & University Policies for Fall 2021

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.html#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 first term half course:
Deadline to drop a first term half course:

Thursday September 16, 2021
Friday November 12, 2021

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

- The Faculty of Social Science's policies on academic accommodation are found at http://counselling.ssc.uwo.ca/procedures/having_problems/index.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. Self-Reported Absences cannot be used once a student has proceeded to start to write a test or exam.
- **Self-Reported Absences:** Students will have two opportunities during the fall and winter terms to receive academic consideration if they self-report a missed assessment using the online self-reported absence portal, provided the following conditions are met: the assessment is missed due to an absence of no more than 48 hours in duration, and the assessment for which consideration is being sought is worth 30% or less of the student's final grade. Students are expected to contact their instructors within 24 hours of the end of the period of the self-reported absence, unless noted otherwise on the syllabus. Students are not able to use the self-reporting option in the following circumstances:
 - for exams scheduled by the Office of the Registrar (e.g., final exams)
 - absence of a duration greater than 48 hours
 - assessments worth more than 30% of the student's final grade
 - if the student has opened or started the test or exam
 - if a student has already used the self-reporting portal twice during the fall/winter terms

If the conditions for a Self-Reported Absence are *not* met, students will need to provide a Student Medical Certificate (SMC) if the absence is medical or provide appropriate documentation if there are compassionate grounds for the absence in question. Students are encouraged to contact their Faculty academic counselling office for more information about the relevant documentation. It is strongly recommended that students notify the instructor as soon as possible, ideally before the assessment, when they become aware of an absence. University policy is that students must communicate with their instructors no later than 24 hours after the end of the period covered by the SMC or immediately upon their return from their documented absence. Failure to follow University policy and procedures may result in denial of academic accommodation and a grade of zero.

- **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. **All required documentation for absences that are not covered by the Self-Reported Absence Policy must be submitted to the Academic Counselling office of a student's Home Faculty.**
- **Western University policy on Consideration for Student Absence** is available here: [Policy on Academic Consideration for Student Absences - Undergraduate Students in First Entry Programs.](#)
- **Student Medical Certificate (SMC):** This form is available here: http://www.uwo.ca/univsec/pdf/academic_policies/appeals/medicalform.pdf.
- **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.