

FOUNDATIONS OF FINANCIAL ECONOMICS
ECONOMICS 2181A-001
Department of Economics
Western University

September 2023

Instructor: Des McKeon
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Office hours: Thursdays 10:30 -12:00
Delivery mode: In-person
Meeting times: M/W/F: 8:30am – 9:30 am
Classroom: SSC 2032
Course website: <https://owl.uwo.ca/portal>
Undergraduate inquiries: 519-661-3507 or 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 1021A/B** and **1022A/B**, or **Economics 2001A/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

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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.

Textbook and 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 or later editions.)

Attendance:

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. **You are responsible for everything covered in class.**

Assessment:

Dates and weights:

Test I Oct 4 25%
TEST II..... Nov 8 25%
Final examTBA set by registrar worth 50% %

NB. Students MUST keep abreast of course developments on an ongoing basis.

Failure to keep up with course changes or date deadlines will not be considered for grade accommodations.

No makeup tests will be given. If a student misses a test, the weight of the missed test will be reallocated to the final exam. This is **the only method** of accommodation for missed tests that will be used in this course with one exception; If you have another midterm at the exact time and date as a midterm for this course, then a makeup **may be** offered. **This conflict must be an exact, one-to-one correspondence, with the midterm in this course. Having another midterm or midterms on the same day or within 23 hours does not qualify for this exception.**

Non-programmable calculators are allowed on all tests.

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

Risk and return..... chapter 5
Utility and risk aversion..... chapter 6
Optimal risky portfolio allocation..... chapter 7

Equilibrium Models

The index and capital asset pricing models (CAPM)..... chapters 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.**

Please Note

Department & University Policies for Fall 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.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 OR DROP a first term full or half course: **Fri, Sept 15, 2023**
- Deadline to WITHDRAW from a first term full or half course: **Mon, Nov 13, 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 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 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 unit 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.