



# Rotman Commerce UNIVERSITY OF TORONTO

## Course Outline

### **RSM 332 H1 F, L0101, L5101**

Capital Market Theory

Fall 2019

Course Meets: Mondays 3:00 p.m. – 5:00 p.m. in WW 126 (L0101), Mondays 6:00 p.m. – 8:00 p.m. in WO 30 (L5101)

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Instructor: Kevin Wang, RT462  
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Office Hours: Thursdays 4:30 p.m. – 6:30 p.m.

### **Course Scope and Mission**

This course provides an introduction to financial markets and lays out the foundation for analyzing the investment and financial decisions made by investors. You will learn about key investment concepts and techniques in the fixed income, equity, and derivatives markets. You will also learn how to create optimal combinations (portfolios) of securities with an emphasis on the trade-off between risk and return. Throughout the course, we will connect the concepts of capital markets in a real-world setting and study the quantitative skills essential to make rigorous financial decisions.

### **Course Prerequisites**

Exclusion: [ACT349H1](#), [ECO358H1](#)

Prerequisite: RSM230H1

Co-requisite: [ECO204Y1/ECO206Y1](#), [ECO220Y1/ECO227Y1](#)/[\(STA220H1, STA255H1\)/\(STA257H1, STA261H1\)](#)

*If you drop any of the co-requisite courses during the academic term, you must also drop this course. Contact Rotman Commerce Academic Program Services for academic advising if needed.*

### **Required Readings**

The required textbook is:

S. A. Ross, R. W. Westerfield, J. F. Jaffe, G.S. Roberts, H. Driss, Corporate Finance, 8th Canadian Edition, McGraw-Hill Education, 2019.

Note that this textbook is the same as that required in RSM230 and RSM333. You can purchase the textbook in hard copy or in digital form. You can also purchase the Connect resources made available by McGraw Hill Education if you would like access to their additional practice questions. The publisher has made available to us a special exclusive deal where your purchase of the textbook includes access to edition updates for FOUR YEARS in digital form. The University of Toronto Bookstore sells hard copies of the text as well as access codes for both the digital copy of the text and the optional Connect resources. The ISBN numbers are as follows:

Print package with Connect, 4-year access card: **126033984X \$189.95**  
Digital Only Connect, 4-year access: **9781260339420 \$119 list**  
Digital Only Connect, ebookless (180 day access): **9781260339413 \$60 list**

## Evaluation and Grades

<u>Work</u>		<u>Due Date</u>
Problem Sets	10%	#1: Oct. 15, 4 p.m. #2: Dec. 3, 4 p.m.
Video Assignment	5%	Nov. 15, 4 p.m.
Mid Term Exam	35%	Oct 22, 6:00 – 8:00 p.m.
Final Exam	50%	During the A&S Final Examination period

There will be one midterm counting for 35% and one final examination counting for 50% of the course grade. The final exam will be comprehensive, covering all material covered in the course. To encourage continuous efforts and to reward significant improvement in performance throughout the course, the grade of the midterm exam will be adjusted upwards if the final exam grade turns out to be higher than the original mid-term grade. The adjusted midterm grade that will be used to calculate the overall grade in the course is calculated as  $\max(M, 50\% M + 50\% F)$  where M is the original midterm grade and F is the grade for the final exam. So, suppose the original midterm grade is 60 and the final exam grade is 80, then the adjusted midterm grade =  $\max(60, 50\% 60 + 50\% 80) = 70$ .

In addition, there will be two graded problem sets, covering various topics in the course. Each assignment counts for 5% of the final grade. Students are strongly encouraged to work in groups of two or three persons on the assignments but may work alone if they choose to. Each group should only submit one copy. Assignments are to be submitted to the Rotman Commerce Office (125 St George St) by 4 p.m on the due date. Late submissions will not be accepted. Except for unusual circumstances, grades on homework assignments are final and re-grading requests will not be accepted.

You will also be required to create a video essay discussing a financial topic. The purpose is to develop your ability to analyze financial topics and to communicate your ideas orally. Details for the video assignment will be posted on the course website. We will be using the Communicado platform for the video component of the course. Please be sure to use the Chrome browser to access Communicado. Watch for an email from [admin@communicado.ca](mailto:admin@communicado.ca) with the Subject Line 'Communicado Account Activation'. You do not need to register or create an account. An individual account has been created with your name and email. When you receive the account activation email, All that is required is that you create a password. Then go to <https://rotmancommerce.communicado.ca> and sign in. Note that if you do not activate your account within 7 days of receiving the activation email, you will need to request that your password be re-set from the link on the sign-in page. You will then need to exit the site and return.

Weiyu Peng (E-mail: [weiyu.peng@mail.utoronto.ca](mailto:weiyu.peng@mail.utoronto.ca)), the lead TA for the course, will hold three weekly tutorials. The first tutorial will start on the second week of classes up until the end of the term. Details on the time and location for the weekly tutorials will be posted on the course webpage. Weiyu will maintain a website, [rsm332.org](http://rsm332.org), where she will post some useful material (including old exams).

### Missed Midterm

Students who miss a test or assignment for reasons entirely beyond their control (e.g. illness) may submit a request for special consideration. The Request for Special Consideration Form and supporting documentation must be submitted in a timely manner in order for the request to be reviewed.

In such cases, students must notify the Rotman Commerce Program Office on the date of the course deliverable such as a missed test, or assignment missed class (in the case of participation marks), or due date. They must then complete a [Request for Special Consideration Form](#) and submit it along with supporting documentation (e.g. [Verification of Student Illness or Injury form](#)) to the Rotman Commerce Office within **2 business days** of the originally scheduled course deliverable. Students who do not provide appropriate or sufficient supporting documentation will be given a grade of 0 (zero) for the missed course deliverable.

Documentation submitted in support of petitions for missing tests and assignments must be original; no faxed or scanned copies will be accepted.

**Note that the physician's report must establish that the patient was examined and diagnosed at the time of illness, not after the fact. Rotman Commerce will not accept a statement that merely confirms a later report of illness made by the student to a physician.**

Students who miss the midterm due to illness and have provided the necessary documentation as outlined above will be granted a make-up midterm.

### **Accessibility Needs**

The University of Toronto is committed to accessibility. If you require accommodations for a disability, or have any accessibility concerns about the course, the classroom or course materials, please contact Accessibility Services as soon as possible: [accessibility.services@utoronto.ca](mailto:accessibility.services@utoronto.ca) or <http://www.studentlife.utoronto.ca/as>.

### **Academic Integrity**

Academic Integrity is a fundamental value essential to the pursuit of learning and scholarships at the University of Toronto. Participating honestly, respectfully, responsibly, and fairly in this academic community ensures that the UofT degree that you earn will continue to be valued and respected as a true signifier of a student's individual work and academic achievement. As a result, the University treats cases of academic misconduct very seriously.

*The University of Toronto's Code of Behaviour on Academic Matters*

<http://www.governingcouncil.utoronto.ca/policies/behaveac.htm> outlines the behaviours that constitute academic misconduct, the process for addressing academic offences, and the penalties that may be imposed. You are expected to be familiar with the contents of this document. Potential offences include, but are not limited to:

In papers and assignments:

- Using someone else's ideas or words without appropriate acknowledgement.
- Submitting your own work in more than one course without the permission of the instructor.
- Making up sources or facts.
- Obtaining or providing unauthorized assistance on any assignment (this includes collaborating with others on assignments that are supposed to be completed individually).

On test and exams:

- Using or possessing any unauthorized aid, including a cell phone.
- Looking at someone else's answers
- Misrepresenting your identity.
- Submitting an altered test for re-grading.

Misrepresentation:

- Falsifying institutional documents or grades.
- Falsifying or altering any documentation required by the University, including (but not limited to), medical notes.

All suspected cases of academic dishonesty will be investigated by the following procedures outlined in the *Code of Behaviour on Academic Matters*. If you have any question about what is or not is permitted in the course, please do not hesitate to contact the course instructor. If you have any questions about appropriate research and citation methods, you are expected to seek out additional information from the instructor or other UofT resources such as College Writing Centres or the Academic Success Centre.

### **Email**

At times, the course instructor may decide to communicate important course information by email. As such, all UofT students are required to have a valid UTmail+ email address. You are responsible for ensuring that your UTmail+ email address is set up AND properly entered on the ROSI system. For more information please visit <http://help.ic.utoronto.ca/category/3/utmail.html>

Forwarding your utoronto.ca email to a Hotmail, Gmail, Yahoo or other type of email account is not advisable. In some cases, messages from utoronto.ca addresses sent to Hotmail, Gmail or Yahoo accounts are filtered as junk mail, which means that important messages from your course instructor may end up in your spam or junk mail folder.

### **Quercus and the Course Page**

The online course page for this course is accessed through Quercus. To access the course page, go to q.utoronto.ca and log in using your UTORid and password. Once you have logged in, you will be at the Quercus Dashboard. On this page you will see all of the courses you are presently enrolled in. If you don't see the course listed here but you are properly registered for the course in ROSI, wait 48 hours.

### **Recording Lectures**

Lectures and course materials prepared by the instructor are considered by the University to be an instructor's intellectual property covered by the Canadian Copyright Act. Students wishing to record a lecture or other course material in any way are required to ask the instructor's explicit permission, and may not do so unless permission is granted (note: students who have been previously granted permission to record lectures as an accommodation for a disability are, of course, excepted). This includes tape recording, filming, photographing PowerPoint slides, Quercus materials, etc.

If permission is granted by the instructor (or via Accessibility Services), it is intended for the individual student's own study purposes and does not include permission to "publish" them in anyway. It is absolutely forbidden for a student to publish an instructor's notes to a website or sell them in any other form without formal permission.

## Lecture Schedule

The schedule of lectures may change as we progress throughout the term. Any changes will be posted on the course webpage. You are expected to read assigned reading ahead of class.

<u>CLASS</u>	<u>DATE</u>	<u>TOPICS</u>	<u>READINGS</u>
1	Sep. 9	<b>Introduction:</b> introduction to the course, review of time value of money.	Chapter 5, pp. 96-125
2	Sep. 16	<b>Fixed income I:</b> mortgages, bond valuation, bond yields.	Chapter 6.1-6.3, pp. 136-142 Chapter 21.4-21.5, pp. 580-586
3	Sep. 23	<b>Fixed income II:</b> bond arbitrage, spot interest rates.	
4	Sep. 30	<b>Fixed income III:</b> corporate bonds, term structure of interest rates, forward rates, duration.	Appendix 6A, pp. 166-174 Chapter 26.6, pp. 709-712
5	Oct. 7	<b>Stock valuation:</b> common stock valuation, valuation by comparable.	Chapter 6.4-6.10, pp. 142-158
6	Oct. 18*	<b>Modern portfolio theory:</b> statistics review, risk and return, modern portfolio theory.	Chapter 10.1-10.6, pp. 268-284 Chapter 11.1-11.4, pp. 290-309
<b>TUESDAY OCTOBER 15<sup>TH</sup>, 4PM, COMMERCE OFFICE - ASSIGNMENT #1 DUE</b>			
	Oct. 22	<b>Midterm exam</b>	
7	Oct. 28	<b>Capital Asset Pricing Model:</b> diversification, introduction to CAPM.	Chapter 11.5-11.9, pp. 309-319
8	Nov. 11	<b>Multi-factor models:</b> introduction to APT, empirical applications.	Chapter 12.1-12.7, pp. 328-342
9	Nov. 18	<b>Introduction to derivatives:</b> futures, forwards, and options.	Chapter 26.1-26.4, pp. 695-703 Chapter 23.1-23.6, pp. 617-625
<b>FRIDAY NOVEMBER 15<sup>TH</sup>, 4PM, COMUNICADO - VIDEO ASSIGNMENT DUE</b>			
10	Nov. 25	<b>Option pricing:</b> put-call parity, binomial model, Black-Scholes formula.	Chapter 26.6-26.8, pp. 626-638
11	Dec. 2	<b>Market efficiency:</b> forms of market efficiency, event studies.	Chapter 14.2-14.8, pp. 385-409
<b>TUESDAY DECEMBER 3<sup>RD</sup>, 4PM, COMMERCE OFFICE - ASSIGNMENT #2 DUE</b>			