



# Rotman Commerce UNIVERSITY OF TORONTO

## Course Outline

### RSM 332 H1 F, L5101, L5201

Capital Market Theory

Summer 2019

Course Meets: Tues/Thus 5 – 7 pm (L5101) SS 2110, Tues/Thus 7 – 9 pm (L5201) SS 1072

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## Course Scope and Mission

This is an introductory course of finance. The course provides an introduction to the capital market as well as a framework for analyzing the major types of investment and financial decisions made by investors. Lectures and readings will provide an introduction to present value techniques, pricing of stocks and bonds, portfolio theory, and the operation and efficiency of financial markets.

## Course Prerequisites

Pre-requisite: RSM 230H1

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

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:

L. Booth, W. S. Cleary, and Ian Rakita, Introduction to Corporate Finance, 4th edition, John Wiley & Sons Canada, 2016 (BCR, ISBN: 978-1-119-17128-7).

## Evaluation and Grades

### Work

Assignment # 1	5%
Midterm Exam	35%
Assignment # 2	5%
Final Exam	55%

### Due Date

Wednesday May 22, 11 pm
Tuesday May 28, 7 – 9 pm
Wednesday June 12, 11 pm
During the A&S Final Examination period

**Exams:** There will be one midterm counting for 35% and one final examination counting for 55% of the course grade. For the examinations, you are allowed to bring in a calculator and an 8(1/2)"×11" **single-sided** "crib" sheet on which you may write down whatever you wish. If the sheet is typed or contains photocopied materials, the font size has to be 10 point or larger. If you miss the midterm examination, it is important that you inform me and the commerce office right away. In case you miss the examination for legitimate reasons, a make-up test will be given. Exam questions are both quantitative and qualitative.

**Assignments:** You are encouraged to work and submit assignments collaboratively in a group which can consist of up to three students. Assignments are both problem-solving and a simple data analysis. The instructor will hold one tutorial which covers tools for the simple data analysis. Details on the time and location for the tutorial will be posted on the course webpage. Doing these assignments is crucial to obtaining a good understanding of the course materials, and exam questions are closely related to the assignments. The two assignments count for 10% of the final grade, and they will be important determinants in borderline cases.

Assignment # 1 is to understand the time value of money, bond valuation, and the relationship between term spread, credit spread, and systematic risk of the financial market.

Assignment # 2 is to understand portfolio theory, Capital Asset Pricing Model, and multi-factor model.

Please create a zip file containing your report file (MS Word or PDF format only) together with supplementary Excel file for your data analysis and submit the zipped file to TA email ([penn.liu@mail.utoronto.ca](mailto:penn.liu@mail.utoronto.ca)) no later than 11 pm on the due date. You are allowed to solve problems using Excel. Please include a cover page indicating your group's student numbers. Your report should contain answers for the problem solving, critical results for the data analysis (you can capture results on Excel), and interpretations. Solutions for the problem-solving will be posted on May 23 and June 13 for Assignment #1 and #2, respectively. Late ones are not accepted. Students who, for reasons beyond their control, are unable to submit an assignment by its deadline must obtain approval from the instructor for an extension. Supporting documentation will be required as per the policy on missed tests and assignments.

### **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.

**The approximate lecture schedule for the course is:**

Session	Date	Topic	Readings
1	May 7	<b>Introduction</b>	BCR (Ch.1–2) (Note: if you need a refresh of financial accounting, review Ch.3 and Ch.4.1–4.7 as well)
2	May 9	<b>Time-value of Money</b>	BCR Ch. 5
3	May 14	<b>Bond Valuation:</b> Review of time value of money. Pricing of Bonds, yield-to-maturity, duration	BCR Ch.6
4	May 16	<b>Term Structure Theory:</b> Term structure of interest rates, forward rates	BCR (Ch. 11.1, Appendix 11A)
5	May 21	<b>Valuation of Stocks:</b> Common stock valuation and growth opportunities	BCR Ch.7
6	May 23	<b>Risk and Return:</b> Trade-off between risk and return, statistics review	BCR (Ch.8.1–8.3, 8.5) <b>Assignment #1 due: Wednesday May 22, 11 pm</b>
7	May 28	<b>Midterm:</b> Midterm Time: 7–9 p.m., Location: TBA.	
8	May 30	<b>Portfolio Theory:</b> Portfolio mathematics, diversification, and efficient portfolios	BCR (Ch.8.4, Appendix 8.A, Ch.9.1).
9	June 4	<b>Capital Asset Pricing Model:</b> Introduction to the CAPM	BCR (Ch.9.2–9.3)
10	June 6	<b>Option Pricing 1:</b> Calls and Puts, Put-Call Parity, No-arbitrage relation	BCR (Ch.12)
11	June 11	<b>Option Pricing 2:</b> Binomial model and Black-Scholes formula	BCR (Ch.12)
12	June 13	<b>Operation and Efficiency of Capital Markets:</b> Efficient market hypothesis:	BCR (Ch.10) <b>Assignment #2 due: Wednesday June 12, 11 pm</b>
Final Exam	June 19 – June 26		

