MFIN 710: Sections 01 and 02

FINANCIAL THEORY
Winter 2017 Course Outline

Finance and Business Economics Area
DeGroote School of Business
McMaster University

COURSE OBJECTIVE

This course explores the theoretical and conceptual foundations of standard methods applied in modern-day finance. The methods involve various risk measures, valuation approaches, theories of asset pricing, quantitative methods for applying asset pricing models, and approaches for dealing with imperfect and asymmetric information.

INSTRUCTOR AND CONTACT INFORMATION

Thursday 11:30am – 2:20pm [Section 01]
Class Location: BSB-B155
Friday 11:30am – 2:20pm [Section 02]
Class Location: DSB-505

Dr. Ronald Balvers
Office: DSB A105
Office Hours: Tu 2pm-5pm, Th 3pm-5pm, or by appointment
Tel: (905) 525-9140, Ext. 23969

Email: balvers@mcmaster.ca
Home Page: http://profs.degroote.mcmaster.ca/business/balvers

Course Website: Please visit Avenue to Learn at http://avenue.mcmaster.ca

Important Notice
When in class, use of a mobile phone, a tablet or a computer is prohibited.

COURSE DESCRIPTION

The course relies primarily on lectures in which the textbook is supplemented by class notes.

COURSE ELEMENTS

Avenue:	Yes	Leadership:	No	IT skills:	Yes	Global view:	Yes
Participation:	Yes	Ethics:	No	Numeracy:	Yes	Written skills:	Yes
Evidence-based:	Yes	Innovation:	No	Group work:	No	Oral skills:	No
Experiential:	Yes	Guest speaker(s):	No	Final Exam:	Yes	Credit value:	3

LEARNING OUTCOMES

Upon completion of the course, students are expected to:

- Understand and apply the main theories of the pricing of financial assets.

- Use appropriate statistical methods to evaluate asset pricing models.

- Use MATLAB software to manipulate financial data and present results of model application.

- Understand and apply main theories regarding valuation and corporate financial decisions in a risky environment.

REQUIRED COURSE MATERIALS AND READINGS

- Financial Theory and Corporate Policy by T.E. Copeland, J.F. Weston, and K. Shastri, 4th ed., 2005, Pearson Addison Wesley. [CWS]

- Matlab Software. You may access matlab via http://vlab.mcmaster.ca. Alternatively you may use a standalone copy. A student version is available for $99.99 at the bookstore or via Mathworks online.

- Class notes to be distributed. These elaborate on the PowerPoint notes presented during the lectures. [RB]

EVALUATION

A combination of lectures, discussion, independent research, and problem solving. Students are encouraged to think, analyze, evaluate, and problem-solve, not memorize. Students are expected to come to class on time and be prepared for the class, i.e., to have read the assigned readings and to have done the assigned problems. The final grade will be calculated as follows:

Components and Weights

Assignments	30
Mid-term Exam	30
Final Exam	40
Total	100%

Exams

The exams will ask you to explain and apply particular concepts, theories, and approaches. Your answers will involve short essays as well as some computations.

NOTE: The use of a McMaster standard calculator is allowed during examinations in this course. See McMaster calculator policy at the following URL:

http://www.mcmaster.ca/policy/Students-AcademicStudies/examinationindex.html

Assignments

There will be between five and nine individual assignments. Jointly these assignments will count for 30% of your overall grade but weights of individual assignments may vary depending on length and difficulty. Most of these assignments will require you to work with Matlab to apply the various methods and theories discussed in class. In this course, absolutely no cooperation is allowed between fellow students and the assignments and you are not allowed to solicit outside help of any sort.

Grade Conversion

At the end of the course your overall percentage grade will be converted to your letter grade in accordance with the following conversion scheme.

LETTER GRADE	PERCENT
A+	90 - 100
A	85 - 89
A-	80 - 84
B+	75 - 79
B	70 - 74
B-	65 – 69
F	00 - 64

Communication and Feedback

Students that are uncomfortable in directly approaching an instructor regarding a course concern may send a confidential and anonymous email to the respective Area Chair or Associate Dean:

http://www.degroote.mcmaster.ca/curr/emailchairs.aspx

Students who wish to correspond with the instructor directly via email must send messages that originate from their official McMaster University email account. This protects the confidentiality and sensitivity of information as well as confirms the identity of the student. Emails regarding course issues should NOT be sent to the Administrative Assistant.

Instructors are encouraged to conduct an informal course review with students by Week #4 to allow time for modifications in curriculum delivery. Instructors should provide evaluation feedback for at least 10% of the final grade to students prior to Week #8 in the term.

ACADEMIC DISHONESTY

It is the student's responsibility to understand what constitutes academic dishonesty. Please refer to the University Senate Academic Integrity Policy at the following URL:

http://www.mcmaster.ca/policy/Students-AcademicStudies/AcademicIntegrity.pdf

This policy describes the responsibilities, procedures, and guidelines for students and faculty should a case of academic dishonesty arise. Academic dishonesty is defined as to knowingly act or fail to act in a way that results or could result in unearned academic credit or advantage. Please refer to the policy for a list of examples. The policy also provides faculty with procedures to follow in cases of academic dishonesty as well as general guidelines for penalties. For further information related to the policy, please refer to the Office of Academic Integrity at:

http://www.mcmaster.ca/academicintegrity

POTENTIAL MODIFICATIONS TO THE COURSE

The instructor and university reserve the right to modify elements of the course during the term. The university may change the dates and deadlines for any or all courses in extreme circumstances. If either type of modification becomes necessary, reasonable notice and communication with the students will be given with explanation and the opportunity to comment on changes. It is the responsibility of the student to check their McMaster email weekly during the term and to note any changes.

MISSED ACADEMIC WORK

Late assignments will not be accepted. No extensions are available except under extraordinary circumstances. Please discuss any extenuating situation with your instructor at the earliest possible opportunity. Students unable to write the mid-term or final exam at the posted exam time, or to complete an assignment or the term paper at the posted time due to the following reasons: religious; work- related (for part-time students only); representing university at an academic or varsity athletic event; conflicts between two overlapping scheduled exams; or other extenuating circumstances, have the option of applying for special arrangements. If an exam or assignment is missed without a valid reason, students will receive a grade of zero (0) for that component.

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http://www.copyright.mcmaster.ca/Access_Copyright_Agreement

STUDENT ACCESSIBILITY SERVICES

Student Accessibility Services (SAS) offers various support services for students with disabilities. Students are required to inform SAS of accommodation needs for course work at the outset of term. Students must forward a copy of such SAS accommodation to the instructor normally, within the first three (3) weeks of classes by setting up an appointment with the instructor. If a student with a disability chooses NOT to take advantage of an SAS accommodation and chooses to sit for a regular exam, a petition for relief may not be filed after the examination is complete. The SAS website is:

http://sas.mcmaster.ca

COURSE SCHEDULE

WEEK	DATE	TOPIC
1	Th Jan 12 Fr Jan 13	Chapters 1 and 2 [CWS]; Chapter 1 [RB] Fisher Analysis, Discounting and Time Preference, Valuation
2	Th Jan 19 Fr Jan 20	Chapters 3 and 4 [CWS]; Chapter 2 [RB] Risk, Complete Markets, Fisher Separation with Uncertainty, Stochastic Discount Factors
3	Th Jan 26 Fr Jan 27	Chapter 3 [RB] Valuation Methods, Valuation and Financial Accounting, Leverage and Valuation, Expected Returns and Cost of Capital
4	Th Feb 2 Fr Feb 3	Chapter 5 [CWS] and Chapter 4 [RB] Portfolio Choice Theory
5	Th Feb 9 Fr Feb 10	Chapter 6 [CWS] and Chapter 5 [RB] CAPM Theory
6	Th Feb 16 Fr Feb 17	Chapter 6 [RB] Application of Asset Pricing Models
7	Th March 2	MIDTERM (Chapters 1-6, CWS and RB): 6:30pm-8:30pm
8	Th March 9 Fr *March 3*	Chapter 7 [RB] Multi-Factor Asset Pricing and Applications
9	Th March 16 Fr March 10	Chapter 6 [CWS] and Chapter 8 [RB] Arbitrage Pricing Theory
10	Th March 23 Fr March 17	Chapter 9 [RB] Applications of Arbitrage Pricing Theory
11	Th March 30 Fr March 24	Chapters 10 and 11 [CWS] and Chapter 10 [RB] Market Efficiency, Information and Asset Pricing
12	Th April 6 Fr March 31	Chapter 12 [CWS] and Chapter 11 [RB] Asymmetric Information and Pricing, Signalling
13	Th April 13 Fr April 7	Chapter 12 [RB] Microstructure, Liquidity and Pricing
14	April xx	FINAL EXAM (all chapters covered)