

MFIN 605
Financial Instruments and Their Markets
Fall 2018 Course Outline

Finance Area
DeGroote School of Business
McMaster University

COURSE OBJECTIVES

The primary objective of this course is to provide students with a good, practical understanding of various financial instruments – their features, valuation, market structure, trading environment, and principal participants. The instruments that will be studied in this course include debt, equity, derivatives, and investment funds. In addition, the course will discuss the findings of relevant empirical research on these financial instruments.

INSTRUCTOR AND CONTACT INFORMATION

Instructor: Narat Charupat

Email: mfin605@gmail.com

Office Location: DSB-314

Office Hours: Wednesdays 15:00 – 16:00 (or by appointment)

Phone: (905) 525-9140 Ext. 23987

Class Location: DSB-505

Class Time: Section 1 – Tuesdays 14:30 – 17:20; Section 2 – Tuesdays 11:30 – 14:20

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

This course provides students with a practical understanding of various financial instruments and their markets. These instruments include stocks, bonds, derivatives, mutual funds, exchange-traded funds, and hedge funds. The course will discuss the instruments' features, risk-return characteristics, valuation, market structure and trading environment. It will also explore the findings of relevant empirical research such as those on market efficiency, market anomalies, behaviour of stock returns, and mutual fund performance.

LEARNING OUTCOMES

Upon completion of this course, students should:

- have a good understanding of various financial instruments and their markets
- be familiar with the results of important empirical studies on financial instruments
- be able to write with a report and/or conduct an empirical study on certain aspects of financial instruments

COURSE MATERIALS AND READINGS

Textbook: There is really no up-to-date textbook that exactly fits the objectives of this course. The closest book for our purpose is:

Capital markets: Institutions, Instruments, and Risk Management, 5th edition by Frank J. Fabozzi.

While the book contains lots of useful information, the writing style is not always clear or focused.

Readings: Students are strongly encouraged to keep themselves up to date with new developments in the financial markets. This involves reading newspapers (e.g., the *Wall Street Journal* and the *Financial Times*), and online publications from various web sites such as the US Securities and Exchange Commission (<https://www.sec.gov/investor/pubs.shtml>), the Ontario Securities Commission (http://www.osc.gov.on.ca/en/Investors_index.htm), the Finance Industry Regulatory Authority (<https://www.finra.org/investors>), and the Canadian Securities Administrators (<https://www.securities-administrators.ca/investortools.aspx?id=1004>). In addition, throughout the course, several academic papers will be recommended.

EVALUATION

Midterm	30%
Final	30%
Term Paper	30%
Presentation	10%
Total	100%

Grade Conversion

I do not use a fixed percentage grading scale. That is, there is no fixed schedule that I use to map marks to letter grades. This means that raw marks are not in themselves very meaningful. Rather, your final grade will depend on how well you do relative to other people in your class.

Term Paper

Students are required to work in groups to work on term papers. Each group must consist of 4 people.

The term paper should have around 25-30 typed, double-spaced pages (not including references). The topic of the term paper can be anything that is related to financial instruments or their markets. For example, it can be a detailed description of a new financial security (e.g., what it is, its risk-return profile, the motive for its existence, its buyers, etc.). Alternatively, it can be an original empirical study or a replication of a previously published study on financial instruments (e.g., stock return anomalies, mutual fund performance, market inefficiency, etc.).

The criteria for judging term papers are as follows:

- (1) **Completeness and accuracy:** If the paper is a description of a new financial instrument, it has to contain all the relevant details on the instrument. If the paper is an empirical study, it needs to apply the methodologies correctly and be thorough in conducting the tests.
- (2) **Organization and clarity:** The paper needs to be organized logically (so that the readers can follow the paper's story). The writing needs to be clear and unambiguous.

(3) Degree of difficulty of the project and the amount of effort put in.

The time table for the paper is as follows. First, by Monday October 8, each group must submit for approval a description of the topic and the plan for completing the paper (2-3 pages). Each group is strongly encouraged to discuss their idea with me prior to this date. Secondly, the term paper has to be submitted in class on Tuesday November 27. It is very important that each group starts working on the paper early.

Presentation

Each group will present their paper in class on Tuesday November 27 or Tuesday December 4. Each group will have 20-25 minutes to explain their paper, followed by 5-10 minutes of questions and discussions. The presentation will be judged based on its clarity and informativeness. In addition, all group members are expected to be able to answer questions from the audience satisfactorily.

Participation

Please note that although there is no participation mark in this course, students' participation is welcome and appreciated. Participation can be in the form of answering questions or asking own questions.

Communication and Feedback

Students who wish to correspond with instructors or TAs 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.

ACADEMIC DISHONESTY

You are expected to exhibit honesty and use ethical behaviour in all aspects of the learning process. Academic credentials you earn are rooted in principles of honesty and academic integrity.

Academic dishonesty is to knowingly act or fail to act in a way that results or could result in unearned academic credit or advantage. This behaviour can result in serious consequences, e.g. the grade of zero on an assignment, loss of credit with a notation on the transcript (notation reads: "Grade of F assigned for academic dishonesty"), and/or suspension or expulsion from the university.

It is your responsibility to understand what constitutes academic dishonesty. For information on the various types of academic dishonesty please refer to the Academic Integrity Policy, located at:

www.mcmaster.ca/academicintegrity

The following illustrates only three forms of academic dishonesty:

1. Plagiarism, e.g. the submission of work that is not one's own or for which other credit has been obtained.
2. Improper collaboration in group work.
3. Copying or using unauthorized aids in tests and examinations

Use of Turnitin

In this course we will be using a web-based service (Turnitin.com) to reveal plagiarism. Students will be expected to submit their work electronically to Turnitin.com and in hard copy so that it can be checked for academic dishonesty. Students who do not wish to submit their work to Turnitin.com must still submit a copy to the instructor. No penalty will be assigned to a student who does not submit work to Turnitin.com. All submitted work is subject to normal verification that standards of academic integrity have been upheld (e.g., on-line search, etc.). To see the Turnitin.com Policy, please go to; <http://www.mcmaster.ca/academicintegrity/turnitin/students/>

MISSED EXAMINATIONS/TESTS/CLASS PARTICIPATION

Where students miss a regularly scheduled mid-term or class participation for legitimate reasons as determined by the MFIN Program Office, the weight for that test/participation will be distributed across other evaluative components of the course at the discretion of the instructor.

Documentation explaining such an absence must be provided to the MFIN Program Office within five (5) working days upon returning to school.

To document absences for health related reasons, please provide the Petition for Relief for MFIN Missed Term Work and the McMaster University Student Health Certificate which can be found on the DeGroote website at <https://mfin.degroote.mcmaster.ca/current-students/forms/>.

Please do not use the online McMaster Student Absence Form as this is for Undergraduate students only.

www.degroote.mcmaster.ca

University policy states that a student may submit a maximum of three (3) medical certificates per year after which the student must meet with the Program Director.

To document absences for reasons other than health related, please provide the Petition for Relief for MFIN Missed Term Work which can be found on the DeGroot website at <https://mfin.degroot.mcmaster.ca/current-students/forms/> and documentation supporting the reason for the absence.

Students unable to write a mid-term at the posted exam time due to the following reasons: religious; representing university at an academic event; conflicts between two overlapping scheduled mid-term exams; or other extenuating circumstances have the option of applying for special exam arrangements. Such requests must be made to the MFIN Program Office at least ten (10) working days before the scheduled exam along with acceptable documentation. Instructors cannot themselves allow students to unofficially write make-up exams/tests.

Adjudication of the request must be handled by the MFIN Program Office.

If a mid-term exam is missed without a valid reason, students will receive a grade of zero (0) for that component.

Missed Final Examinations

A student who misses a final examination without good reason will receive a mark of 0 on the examination.

All applications for deferred and special examination arrangements must be made to the MFIN Program Office. Failure to meet the stated deadlines may result in the denial of these arrangements. Deferred examination privileges, if granted, must be satisfied during the examination period at the end of the following term. There will be one common sitting for all deferred exams.

Failure to write an approved deferred examination at the pre-scheduled time will result in a failure for that examination, except in the case of exceptional circumstances where documentation has been provided and approved. Upon approval, no credit will be given for the course, and the notation N.C. (no credit) will be placed on the student's transcript. Students receiving no credit for a required course must repeat the course. Optional or elective courses for which no credit is given may be repeated or replaced with another course of equal credit value.

Requests for a second deferral or rescheduling of a deferred examination will not be considered.

Any student who is unable to write a final examination because of illness is required to submit the Application for Deferred MFIN Final Examination and a statement from a doctor certifying illness on the date of the examination. The Application for Deferred MFIN Final Examination and the McMaster

University Student Health Certificate can be found on the DeGroot website at <https://mfin.degroot.mcmaster.ca/current-students/forms/>

Students who write examinations while ill will not be given special consideration after the fact. In such cases, the request for a deferred examination privilege must be made in writing to the MFIN Program Office within five business days of the missed examination.

Special examination arrangements may be made for students unable to write at the posted exam time due to compelling reasons such as religious or representing the University at an academic event.

Students who have religious obligations which make it impossible to write examinations at the times posted are required to produce a letter from their religious leader stating that they are unable to be present owing to a religious obligation.

If a student is representing the University at an academic event and is available at an overlapping scheduled time of the test/examination, the student may write the test/examination at an approved location with an approved invigilator, as determined by the MFIN Program Office. In such cases, the request for a deferred examination privilege must be made in writing to the MFIN Program Office within ten business days of the end of the examination period.

Note: A fee of \$50 will be charged for a deferred exam written on campus and a fee of \$100 for deferred exams written elsewhere.

In cases where the student's standing is in doubt, the MFIN Program Office may require that the student with one or more deferred examination privileges refrain from re-registering until the examination(s) have been cleared.

STUDENT ACCESSIBILITY SERVICES

Students who require academic accommodation must contact Student Accessibility Services (SAS) to make arrangements with a Program Coordinator. Academic accommodations must be arranged for each term of study. Student Accessibility Services can be contacted by phone 905-525-9140 ext. 28652 or e-mail sas@mcmaster.ca.

For further information, consult McMaster University's Policy for Academic Accommodation of Students with Disabilities:

<http://www.mcmaster.ca/policy/Students-AcademicStudies/AcademicAccommodation-StudentsWithDisabilities.pdf>

POTENTIAL MODIFICATION 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 and course websites weekly during the term and to note any changes.

ACKNOWLEDGEMENT OF COURSE POLICIES

Your enrolment in MFIN 605 will be considered to be an implicit acknowledgement of the course policies outlined above, or of any other that may be announced during lecture and/or on A2L. **It is your responsibility to read this course outline, to familiarize yourself with the course policies and to act accordingly.**

Lack of awareness of the course policies **cannot be invoked** at any point during this course for failure to meet them. It is your responsibility to ask for clarification on any policies that you do not understand.

COURSE SCHEDULE

CLASS	DATE	TOPICS
1	Sept 11	Introduction – Overview of financial instruments and their markets
2	Sept 18	Debt instruments and markets – money market securities, treasury bond, corporate bonds, international bonds, asset-backed securities, etc. (Part 1)
3	Sept 25	Debt instruments and markets – money market securities, treasury bond, corporate bonds, international bonds, asset-backed securities, etc. (Part 2)
4	Oct 2	Equity – market structure, initial public offering, seasoned equity offering
5	Oct 16	Properties of stock returns, return predictability, price discovery process, anomalies (Part 1)
6	Oct 23	Properties of stock returns, return predictability, price discovery process, anomalies (Part 2)
7	Oct 30	Derivatives and their markets
8	Nov 6	Mutual funds – motivations, types of funds, sales charges and expenses, performance measurements
9	Nov 13	Exchange-traded funds – types of ETFs, process of creating and redeeming ETF shares, tracking errors
10	Nov 20	Hedge funds; Securitization
11	Nov 27	Presentations of term papers
12	Dec 4	Presentations of term papers