

MFIN 605
Financial Instruments and Their Markets
Fall 2019 Course Outline

Finance and Business Economics Area
DeGroot School of Business
McMaster University

COURSE OBJECTIVE

The primary objective of this course is to provide students with a thorough understanding of 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: Trevor W. Chamberlain

Email: chambert@mcmaster.ca

Office Location: DSB-304

Office Hours: By appointment

Phone: (905) 525-9140 Ext. 23980

Class Location: C01 – DSB 505; CO2 - CNH 102

Class Time: C01 – Wednesday 14:30 – 17:20; C02 – Monday 14:30 – 17:20

TA office hours: TBA

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

Please note: the use of cell phones is strictly prohibited in class.

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 a report or conduct an empirical study on certain aspects of financial instruments

COURSE MATERIALS AND READINGS

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

The recommended textbook readings should be done before each class.

Other reading: 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>).

EVALUATION

Midterm coverage: Weeks 1 to 5 and 7)*	25%
Final coverage: Weeks 1 to 5 and 7 to 12)**	35%
Term Paper	30%
Presentation	10%
Total	100%

*The mid-term exam is scheduled for Friday, November 01, 6:30 to 8:30 pm in UH 213

**The final exam will be held during the final examination period in December.

Grade Conversion

I shall not use a fixed percentage grading scale. That is, there is no fixed schedule that I shall 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. The allowed grade range is A+ to F. The median grade for 600-level courses is typically about B+.

Term Paper

Students are required to work in groups on a term paper. Each group must consist of 4 people registered in the section in which they are registered. You may choose your own group members (from members of your section).

The term paper should be 25-30 typed, double-spaced pages (not including references or appendices, if any). 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 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 indicated.

The time-table for the paper is as follows. First, by Monday October 7 (CO1) or Wednesday, October 9 (CO2), each group must submit in class a description of the topic and the plan for completing the paper (2-3 pages; paper format). Each group is strongly encouraged to discuss their idea with me prior to this date. Secondly, the final term paper has to be submitted in class on Monday November 25 (CO1) or Wednesday, November 27 (CO2) in paper format. It is very important that each group start working on the paper early. Late papers will not be accepted.

Presentation

Each group will present their paper in class on Monday, December 02 (CO1) or Wednesday, December 4 (CO2). Groups will have about 15 minutes to explain their paper, followed by about 5 minutes for questions and discussions. The presentations will be judged based on their clarity and informativeness. In addition, all group members are expected to be able to answer questions from the audience satisfactorily. Students are encouraged to use presentation tools like Powerpoint.

Participation

Please note that although there is no explicit participation mark in this course, students' participation is expected. Participation can be in the form of answering questions or asking questions. Most weeks students will be given questions from the end of the relevant textbook chapters to do on their own. These should be completed before the next lecture as some of them will be discussed in class.

Communication and Feedback

Students who wish to correspond with the instructor or TA 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 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 TESTS

Where students miss a regularly scheduled mid-term for legitimate reasons as determined by the MFIN Program Office, the weight for that test will be assigned to the final exam.

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 it is for undergraduate students only.

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 DeGroote website at <https://mfin.degroote.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 will receive a mark of 0 on the examination.

All applications for deferred final examinations 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 final 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.

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.degrootemcmaster.ca/current-students/forms/>

Students who write examinations while ill will not be given special consideration after the fact.

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 students will be given. 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

WEEK	DATE	TOPICS	READINGS (FABOZZI)*
1	Sept 09/11	Introduction – Overview of financial instruments and their markets	1,8
2	Sept 16/18	Debt instruments and markets – money market securities, treasury bonds, corporate bonds, international bonds, asset-backed securities, etc. (Part 1)	20, 21
3	Sept 23/25	Debt instruments and markets – money market securities, treasury bonds, corporate bonds, international bonds, asset-backed securities, etc. (Part 2)	23, 24
4	Sept 30/Oct 02	Equity – market structure, initial public offerings, seasoned equity offerings	18, 19
5	Oct 07/09	Properties of stock returns, return predictability, price discovery, anomalies (Part 1)	12, 13
6	Oct 14/16	Reading week: No classes	
7	Oct 21/23	Properties of stock returns, return predictability, price discovery, anomalies (Part 2)	14
8	Oct 28/30	Mid-term exam: Friday, November 01, 6:30-8:30, UH 213	
9	Nov 4/6	Derivatives and their markets	28, 29
10	Nov 11/13	Mutual funds – motivation, types of funds, sales charges and expenses, performance measurement Exchange-traded funds – types of ETFs, process of creating and redeeming ETF shares, tracking errors	Ch 6, pp. 175-188
11	Nov 18/20	Hedge funds; Securitization	Ch 6, pp. 188-194, 11
12	Nov 25/27	Other financial instruments; Review	Ch 6, pp. 194-198
13	Dec 02/04	Presentation of term papers	

*The chapters or pages indicated cover most of the material covered in each section. However, students may have to refer to other sections or chapters from time to time. The text includes a detailed index.