

FINANCE 605
Financial Instruments and Their Markets
Fall 2020 Course Outline

Finance and Business Economics Area
DeGroote School of Business
McMaster University

COURSE OBJECTIVE

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
Office: DSB 314
Tel: (905) 525-9140 Ext. 23987
E-mail: charupat@mcmaster.ca
Office Hours: To be advised
Class Location: On-line
Class Time: Thursday 19:00 – 22:00

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

COURSE ELEMENTS

Credit Value:	3	Leadership:	No	IT skills:	No	Global view:	Yes
Avenue:	Yes	Ethics:	No	Numeracy:	Yes	Written skills:	Yes
Participation:	No	Innovation:	Yes	Group work:	Yes	Oral skills:	No
Evidence-based	Yes	Experiential	No	Final Exam	Yes	Guest Speaker	No

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 DELIVERY

This course will be delivered through live sessions. Each live session will be recorded and its video will subsequently be posted on-line.

TEXTBOOK

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

You will be evaluated based on four components according to the following weights:

Components and Weights

Midterm Exam (see Note)	35%
Final Exam	35%
Term Paper	30%
Total	100%

Note:

- 1) The midterm exam is scheduled to take place on Friday October 30 from 08:30 to 11:20. Both the midterm exam and the final exam will be designed to reward your understanding *and* thinking.

Grading Scale

For graduate courses the grade conversion scales are available through the following link: [https://academiccalendars.romcmaster.ca/content.php?catoid=42&navoid=8734#2.6.1 Averaging of Letter Grades](https://academiccalendars.romcmaster.ca/content.php?catoid=42&navoid=8734#2.6.1_Averaging_of_Letter_Grades)

MBA and Master of Finance Grading Scale:

Grade	Points	Equivalent Percentages	Pass/Fail
A+	12	90-100	P+
A	11	85-89	P
A-	10	80-84	
B+	9	75-79	
B	8	70-74	
B-	7	60-69	
F	0	59 and under	F

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 Thursday 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 by Thursday December 3. It is very important that each group starts working on the paper early.

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. Emails regarding course issues should NOT be sent to the Area Administrative Assistants.

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

ONLINE COURSE COMPONENT

In this course, we will be using various on-line tools such as Zoom/MS Teams, Avenue to Learn and e-mail communications. Students should be aware that when they access these tools, private information such as first and last names, user names for the McMaster e-mail accounts, and program affiliation may become apparent to all other students in the same course. The available information is dependent on the technology used. Continuation in this course will be deemed consent to this disclosure.

If you have any questions or concerns about such disclosure, please discuss this with the course instructor.

ONLINE PROCTORING

In this course, we may use online proctoring software for tests and exams. This software may require students to turn on their video camera, present identification, monitor and record their computer activities, and/or lock/restrict their browser or other applications/software during tests or exams. This software may be required to be installed before the test/exam begins.

CONDUCT EXPECTATIONS

As a McMaster student, you have the right to experience, and the responsibility to demonstrate, respectful and dignified interactions within all of our living, learning and working communities. These expectations are described in the [Code of Student Rights & Responsibilities](#) (the "Code"). All students share the responsibility of maintaining a positive environment for the academic and personal growth of all McMaster community members, **whether in person or online**.

It is essential that students be mindful of their interactions online, as the Code remains in effect in virtual learning environments. The Code applies to any interactions that adversely affect, disrupt, or interfere with reasonable participation in University activities. Student disruptions or behaviours

that interfere with university functions on online platforms (e.g. use of Avenue 2 Learn, WebEx or Zoom for delivery), will be taken very seriously and will be investigated. Outcomes may include restriction or removal of the involved students' access to these platforms.

REQUESTING RELIEF FOR MISSED ACADEMIC WORK

In the event of an absence for medical or other reasons, students should review and follow the Missed Term Work regulations that are outlined on the Master of Finance website;

<https://mfin.degroote.mcmaster.ca/current-students/missed-term-work/>

STUDENT ACCESSIBILITY SERVICES

Students with disabilities who require academic accommodation must contact [Student Accessibility Services](#) (SAS) at 905-525-9140 ext. 28652 or sas@mcmaster.ca to make arrangements with a Program Coordinator. For further information, consult McMaster University's [Academic Accommodation of Students with Disabilities](#) policy.

ACADEMIC ACCOMMODATION FOR RELIGIOUS, INDIGENOUS OR SPIRITUAL OBSERVANCES (RISO)

Students requiring academic accommodation based on religious, indigenous or spiritual observances should follow the procedures set out in the [RISO](#) policy. Students should submit their request to their Faculty Office *normally within 10 working days* of the beginning of term in which they anticipate a need for accommodation or to the Registrar's Office prior to their examinations. Students should also contact their instructors as soon as possible to make alternative arrangements for classes, assignments, and tests.

COPYRIGHT AND RECORDING

Students are advised that lectures, demonstrations, performances, and any other course material provided by an instructor include copyright protected works. The Copyright Act and copyright law protect every original literary, dramatic, musical and artistic work, **including lectures** by University instructors.

The recording of lectures, tutorials, or other methods of instruction may occur during a course. Recording may be done by either the instructor for the purpose of authorized distribution, or by a student for the purpose of personal study. Students should be aware that their voice and/or image may be recorded by others during the class. Please speak with the instructor if this is a concern for you.

Extreme circumstances

The University reserves the right to change the dates and deadlines for any or all courses in extreme circumstances (e.g., severe weather, labour disruptions, etc.). Changes will be communicated through regular McMaster communication channels, such as McMaster Daily News, A2L and/or McMaster email.

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

ACKNOWLEDGEMENT OF COURSE POLICIES

Your enrolment in FINANCE 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 Avenue to Learn. **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	TOPIC
1	Sept 17	Introduction – Overview of financial instruments and their markets
2	Sept 25	Debt instruments and markets – money market securities, treasury bond, corporate bonds, international bonds, asset-backed securities, etc. (Part 1)
3	Oct 1	Debt instruments and markets – money market securities, treasury bond, corporate bonds, international bonds, asset-backed securities, etc. (Part 2)
4	Oct 8	Equity – market structure, initial public offering, seasoned equity offering
5	Oct 15	Properties of stock returns, return predictability, price discovery process, anomalies (Part 1)
6	Oct 22	Properties of stock returns, return predictability, price discovery process, anomalies (Part 2)
	Oct 29	Midterm exam
7	Nov 5	Derivatives and their markets (Part 1)
8	Nov 12	Derivatives and their markets (Part 2)
9	Nov 19	Mutual funds – motivations, types of funds, sales charges and expenses, performance measurements
10	Nov 26	Exchange-traded funds – types of ETFs, process of creating and redeeming ETF shares, tracking errors
11	Dec 3	Hedge funds
12	Dec 10	Structured products; Securitization

Note: The above schedule is subject to change.