

MFIN 602 Economics of Financial Decisions and Financial Markets

DeGroote School of Business McMaster University

Course Outline Fall, 2022

COURSE OBJECTIVE: To introduce the fundamental building blocks of financial economics to the 1st year graduate students. Introduction of basic financial instruments and the structure of contemporary financial markets are also important points of discussion and learning in this course.

Method and Scope: The course will be delivered in lecture form where topics of financial economics will be discussed with examples. In a parallel fashion, ongoing developments in political economy, monetary policy, and financial markets will be discussed to start building a knowledge background in market developments and economic trends.

INSTRUCTOR AND CONTACT INFORMATION

Instructor Name: Mehmet Beceren, Ph.D.

Email: becerenm@mcmaster.ca

Office Hours: TBA

TAs: Liu Fangxing

COURSE DESCRIPTION

Topics of study will cover the basic models that analyze the financial behavior of economic agents. The combined outcome of preferences, incentives, objectives and constraints of consumers, firms and governments determine the investment dynamics in an economy. We will discuss those building blocks and try to understand how the interacting decisions of economic agents shape the financial market environment.

The lectures will inevitably touch on microeconomic theory, basic valuation and pricing models, behavioral considerations and political aspects of the contemporary global financial market.

While students work to master the fundamental models, they will also start following the recent market and economic policy developments as a part of the coursework. Student are expected to deliver online quizzes and in-class presentations on the current financial news and topics.

Weekly assignments will be a significant portion of the coursework. Active learning by doing and participation are important. Neat and timely work delivered with a professional attitude is crucial.

COURSE MATERIALS AND READINGS

Textbooks:

- **Primary: Financial Economics**, by Fabozzi, Neave and Zhou, J. Wiley & Sons
- **Additional References:**
Economics for Investment Decision Makers, by Christopher Piros and Jerald Pinto
Financial Risk Management and Financial Institutions by John C. Hull, John Wiley & Sons

[Books are available at McMaster Library online resources.](#)

To follow **Financial Times, ft.com and other financial media such as The Economist will be necessary.**

COURSE SCHEDULE MFIN 602

Approximate Course Program:

| Broad Topic and Approximate Week | Specific Topics of Discussion |
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| Introduction: <i>Week # 1</i> | Introduction and Logistics Consumer Financial Decisions under Certainty Preferences, Consumption-Investment Problem Meaning of Market Interest Rate |
| Producer & Consumer Decisions <i>Week # 2 - 3</i> | Firms Decisions Production and competition incentives Investment decisions Financing decisions <i>Decision Theory</i> <i>Microeconomic foundations of utility and preferences under uncertainty</i> |
| Firm Investment and Valuation <i>Week # 3 - 4</i> | Corporate investment decisions Capital structure and financial leverage How investors value firms Growth and rate of return modeling basics |
| Corporate Debt and Credit <i>Week # 4 - 5</i> | Corporate Debt Instruments Credit Risk, Default Risk |
| Risky Assets and Allocation Problem <i>Week # 6-7</i> | Selection and Pricing of Risky Assets Mean-Var Analysis CAPM and Arbitrage Pricing Theory |

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| Main Financial Institutions <i>Week #: 7 - 8</i> | Financial Institutions Banks, Insurance Companies, Pension Funds Investment Banks, Mutual Funds, Hedge Funds |
| Trading Basics and Imperfect Markets <i>Week #: 8-9</i> | Trading in Financial Markets Market imperfections and frictions Market segmentation Limits to Arbitrage |
| Capital Budgeting <i>Week # 10-11</i> | Capital budgeting under uncertainty Primer on Derivative pricing basics (time permitting) |
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| Last Class | Project Presentations |

EVALUATION GUIDELINE

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| Weekly (6 +/- 1) Assignments | 45% |
| Online Quizzes | 10% |
| Term Project | 20% |
| Final Exam | 25% |

Late assignments will not receive full mark. A significant discount will be applied according to the severity of delay.

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.

Instructors are required to provide evaluation feedback for at least 10% of the final grade to students prior to Week #9 in the term. Instructors may solicit feedback via an informal course review with students by Week #4 to allow time for modifications in curriculum delivery.

ACADEMIC INTEGRITY

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

REQUESTING RELIEF FOR MISSED ACADEMIC WORK

Students may request relief from a regularly scheduled midterm, test, assignment or other course components. Please refer to the policy and procedure on the DeGroot website at the link below;

<http://ug.degroot.mcmaster.ca/forms-and-resources/misled-course-work-policy/>

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 email sas@mcmaster.ca. For further information, consult McMaster University’s Policy for Academic Accommodation of Students with Disabilities:

<http://www.mcmaster.ca/policy/StudentsAcademicStudies/AcademicAccommodationStudentsWithDisabilities.pdf>

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 requiring a RISO accommodation should submit their request, including the dates/times needing to be accommodated and the courses which will be impacted, to their Faculty Office normally within 10 days of the beginning of term 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.

POTENTIAL MODIFICATION TO THE COURSE

The instructor reserves the right to modify elements of the course during the term. There may be changes to 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 706 will be considered as 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.