
MFIN 602 Economics of Financial Decisions and Financial Markets

DeGroote School of Business McMaster University

Course Outline 2023

INSTRUCTOR AND CONTACT INFORMATION

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COURSE OBJECTIVE: This course is an introduction to financial economics with a special focus on the interaction of economic fundamentals and financial markets. The main objective is to provide an understanding of microeconomic and macroeconomic factors that influence financial risk and return. The students will have an opportunity to cover a set of key topics in economic analysis that finance professionals commonly use. In addition, students will gain perspectives on the current global financial markets and their interactions with contemporary policy developments.

Method and Scope: The course will be delivered in lecture form where topics of financial economics will be introduced with accompanying data analysis examples. In a parallel fashion, ongoing developments in political economy, monetary policy, and financial markets will be discussed. Selected topics in microeconomic analysis and macroeconomic policy will be covered.

The focus of learning will be the channels of interaction between the economy and financial assets in theory, and in practice. Therefore, hands-on data analysis and critical investigation will be an important learning tool. Students are expected deliver assignments and projects that require data collection, analysis and presentation.

Weekly assignments and a term project 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

There is no required text book. The following list of suggested readings contain different parts of the course topics. All are highly recommended.

Suggested Textbooks:

Financial Economics, by Fabozzi, Neave and Zhou, J. Wiley & Sons

Economics for Investment Decision Makers, by Christopher Piro and Jerald Pinto

Applied Intermediate Macroeconomics, by Hoover, K.D., Cambridge University Press, 2012

Money, Banking and Financial Markets, by Cline D.K. and Mazumder S., 2022

Microeconomics: A Very Short Introduction, by Dixit A., Oxford University Press, 2014

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

To follow **Financial Times, ft.com and other financial media such as The Economist is also highly recommended.**

Additionally, the course work will require the use of online economic and financial data sources. They will be introduced in class as term progresses.

COURSE SCHEDULE MFIN 602

Approximate Course Program:

Broad Topic and Week	Specific Topics of Discussion
Week # 1 <i>Introduction & Overview</i>	Introduction and Logistics Data sources and analysis tools Overview of Interaction of Economics and Finance: Business, Government, Households, Consumption, Savings, Investment, Economic Growth and Capital Markets Political Framework and Policy
Week # 2 - 3 Firms: Production, Profit, Markets and Shareholders	Production Technology, Cost, and Economies of Scale Industrial organization and profitability: Competition, Collusion, Product Differentiation Fundamentals of corporate organization and financing decisions Shareholder equity and stock markets How do investors value firms: Book value vs. Market Value Stock valuation: Fundamentals versus Market Factors <i>Data Analysis Examples</i>

<p style="text-align: center;">Week # 3 – 4</p> <p>Corporate Governance & Investment</p>	<p>Stock valuation: Macroeconomy, Equity Risk Premium (ERP) Macro trends, business cycle dynamics and ERP</p> <p>Stock valuation: Crowd psychology Principal-Agent Problem and Incentives Financial leverage, governance risks and firm valuation</p> <p style="text-align: right;"><i>Data Analysis Examples</i></p>
<p style="text-align: center;">Week # 5 - 6</p> <p>Government Debt, Sovereign Risk Interest Rates, Yield Curve</p>	<p>Treasury Curve, Swap Curve Macro policy, business cycle and yield curve dynamics Bond Risk, Credit Risk, Correlation Risk and Macro policy</p> <p style="text-align: right;"><i>Data Analysis Examples</i></p>
<p style="text-align: center;">Week # 7-8</p> <p>Monetary Policy, Inflation, Rates</p>	<p>Money Supply, Monetary Policy Inflation: Causes and Consequences Exchange Rate Regimes, Macro-Policy and FX Dynamics</p> <p style="text-align: right;"><i>Data Analysis Examples</i></p>
<p style="text-align: center;">Week #9-10</p> <p>FX, International Economy and Global Financial Markets</p>	<p>Economic Growth, Productivity and Financial Return Across Countries</p> <p>Equity Risk, Bond Risk, FX and Policy Differences Globalization, De-Globalization and Financial Markets</p> <p style="text-align: right;"><i>Data Analysis Examples</i></p>
<p style="text-align: center;">Week # 11</p> <p>Contemporary Global Markets -- Main Financial Institutions</p>	<p>Financial derivatives and the economy: Leverage and the risk of risk management tools</p> <p>Further discussions on macroeconomy and financial markets Current themes in global economy and markets outlook</p>
<p style="text-align: center;">Last Class</p>	<p>Project Presentations</p>

EVALUATION GUIDELINE

Weekly (5 +/- 1) Assignments	40%
Online Quizzes	15%
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

Missed Mid-Term Examinations / Tests / Class Participation

Please do not use the online McMaster Student Absence Form (MSAF) as this is for Undergraduate students only. The MBA program will not accept an MSAF.

When students miss regularly scheduled term work which contributes 10% or more to the final grade, for legitimate reasons as determined by the Student Experience – Academic Office (SEAO), the activity necessary to compensate for the missed work will be determined by the course instructor. The compensatory activities assigned will vary with the nature of the course and the missed requirement. They include, but are not restricted to, an alternative assignment, a rescheduled midterm exam, or re-weighting the marks for the missed component to other mark components. Documentation explaining such missed work must be provided to the SEAO within five (5) working days of the scheduled date for completion of the work.

Acceptable reasons for missed work, along with the Petition for Missed Term Work and the MBA Student McMaster University Student Health Certificate, can be found on the DeGroote MBA Student website (mbastudent.degroote.mcmaster.ca). Please direct any questions about acceptable documentation to the MBA Academic Advisors (askmba@mcmaster.ca).

University policy states that a student may submit a maximum of three (3) Petition for Missed Term Work per academic year, after which the student must meet with the Director of the program.

If term work is missed without an approved reason, students will receive a grade of zero (0) for that component.

Missed Final Examinations

Students must be available for the duration of the posted exam period regardless of their personal exam schedule. This is to ensure student availability throughout the entire exam period in the event that an exam must be rescheduled due to unforeseen circumstances (university closure, power outage, storm policy, etc.). A student who misses a final examination without valid reason will receive a mark of 0 on the examination.

Students who have missed a final exam for a valid reason can apply to the SEAO to write a deferred examination by submitting an Application for Deferring a Final Exam with supporting documentation. The application must be made within five days of the scheduled exam.

The Application for Deferring a Final Exam and the MBA Student McMaster University Student Health Certificate can be found on the DeGroote MBA Current Student website (mbastudent.degroote.mcmaster.ca)

Deferred examination privileges, if granted, are normally satisfied during the examination period at the end of the following semester. In select cases, the deferred examination may be written at a time facilitated by the SEAO and agreed to by the course instructor.

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

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.