

**MFIN 710  
Financial Theory  
Winter 2023 Course Outline**

**Master of Finance  
DeGroote School of Business  
McMaster University**

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***COURSE OBJECTIVE***

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*This course provides an in-depth review of the practical implementation of key conceptual foundations of Financial Theory as applied in practice today. A major component of the course involves the use of a Corporate Finance simulation exercise, delivered via FINSIMCO (<https://finsimco.com>), where student groups role-play key Investment Banking functions in the M&A lifecycle of 2 firms in different industries*

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***INSTRUCTOR AND CONTACT INFORMATION***

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Dr. Andrew Aziz  
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GSB 105G  
Office Hours: By Appointment  
437-991-1876

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***COURSE ELEMENTS***

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|                     |                  |                 |                       |
|---------------------|------------------|-----------------|-----------------------|
| Credit Value: 3     | Leadership: No   | IT skills: Yes  | Global view: Yes      |
| A2L: Yes            | Ethics: No       | Numeracy: Yes   | Written skills: Yes   |
| Participation: Yes  | Innovation: Yes  | Groups: Yes     | Oral skills: No       |
| Evidence-based: Yes | Experiential: No | Final Exam: Yes | Guest speaker(s): Yes |

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*COURSE DESCRIPTION*

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*MFIN 710 will explore the theoretical and conceptual foundations of finance as well as their use in practice and the associated implementation challenges. The course covers topics across Investment Finance, Corporate Finance and Financial Intermediation and addresses techniques of corporate valuation, asset pricing, risk analytics, and behavioural finance.*

*Building upon the theoretical principles underlying Modern Portfolio Theory, MFIN 710 will cover the practical challenges of implementing the theory as well as the industry usage of advanced Factor Models, Goals Based Investing and other aspects of Behavioural Finance*

*Issues in Corporate Finance and the role of Financial Intermediation will be covered in the course as well as a review of the causes of the banking sector volatility of 2023, including an analysis of the conditions that led to downfall of Silicon Valley Bank (SVB).*

*A major component of the course involves the use of an Investment Banking simulation exercise, delivered via FINSIMCO (<https://finsimco.com>), where student groups role-play Sell-Side and Buy-Side personas for the M&A lifecycle of two firms of different industries, Star Hotel and Frametastic.*

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*LEARNING OUTCOMES*

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Upon completion of the course, students are expected to:

- Understand and apply the main theories of the pricing of financial assets.
- Understand and apply main theories regarding valuation and corporate financial decisions in a risky environment
- Apply the techniques of corporate valuation, in the context of M&A advisory/negotiation
- Use appropriate statistical methods to evaluate asset pricing models.
- Use software to manipulate financial data and present results of model application.

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*COURSE MATERIALS AND READINGS*

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**Required:**

- Financial Theory and Corporate Policy by T.E. Copeland, J.F. Weston, and K. Shastri, 4th ed., 2005, Pearson Addison Wesley. [CWS]

<https://www.vitalsource.com/en-uk/publisher/products/financial-theory-and-corporate-policy-pearson-new-thomas-e-copeland-v9781292034812>

- FINSIMCO on-line access and supporting materials
- Supplemental readings will be distributed via Avenue to Lean (A2L)

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*EVALUATION*

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*Assessment will be based on a combination of lectures, discussion, independent research, and problem solving. Students are encouraged to think, analyze, evaluate, and problem-solve, not memorize. Students are expected to come to class on time and be prepared for the class, i.e., to have read the assigned readings and to have done the assigned problems. The final grade will be calculated as follows*

**Components and Weights**

|                 |      |
|-----------------|------|
| Final           | 40%  |
| Midterm         | 20%  |
| Assignments (2) | 10%  |
| FINSIMCO        | 30%  |
| Total           | 100% |

### *Grade Conversion*

At the end of the course your overall percentage grade will be converted to your letter grade in accordance with the following conversion scheme.

| LETTER GRADE | PERCENT  |
|--------------|----------|
| A+           | 90 - 100 |
| A            | 85 - 89  |
| A-           | 80 - 84  |
| B+           | 75 - 79  |
| B            | 70 - 74  |
| B-           | 60 - 69  |
| F            | 00 - 59  |

### Course Deliverables

#### *Assignments*

There will be 2 group assignments, each worth 5% of your final grade totaling 10% in aggregate. Groups will be self-formed and can be comprised of up to 4 members

#### *Midterm*

There will be one in class midterm examination in this course that accounts for 20% of your grade. Content will cover roughly the first 50% of the course material

#### *Finsimco simulation*

There will be 4 in class simulation rounds, delivered on-line via FINSIMCO, that accounts for 30% of the total grade, where groups role-play Sell-Side and Buy-Side personas for the M&A lifecycle of two firms

#### *Final Exam*

There will be one in class final examination in this course that accounts for 40% of your grade. It will be cumulative with content covering roughly 25% of course material prior to the midterm and 75% of course material after the midterm

### 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.

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### *ACADEMIC INTEGRITY*

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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](http://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

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### *AUTHENTICITY/PLAGIARISM DETECTION*

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In this course we will be using a web-based service (Turnitin.com) to reveal authenticity and ownership of student submitted work. Students will be expected to submit their work electronically either directly to Turnitin.com or via Avenue to Learn (A2L) plagiarism detection (a service supported by Turnitin.com) so can be checked for academic dishonesty. Students who do not wish to submit their work through A2L and/or Turnitin.com must still submit an electronic and/or hardcopy to the instructor. No penalty will be assigned to a student who does not submit work to Turnitin.com or A2L.

[www.degroote.mcmaster.ca](http://www.degroote.mcmaster.ca)

All submitted work is subject to normal verification that standards of academic integrity have been upheld (e.g., on-line search, other software, etc.). To see the Turnitin.com Policy, please go to;

[www.mcmaster.ca/academicintegrity](http://www.mcmaster.ca/academicintegrity).

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*REQUESTING RELIEF FOR MISSED ACADEMIC WORK*

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**Missed Examinations / Tests / Class Participation**

Students can apply for relief from missed term work if they have or are going to miss an evaluated portion of their course. Please contact the Program Administrator for more information.

Reasons for missing course work can include:

- Health-related or extenuating circumstances
- Work-related commitments (for part-time students only)
- Representing the University at an academic or varsity event
- Religious obligations
- Conflicts between two (or more) overlapping scheduled mid-term exams.

**Requesting Relief for Missed Term Work**

When students miss regularly scheduled term work which contributes 10% or less to the final grade, 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. For missed work which exceeds 10% of the course grade, forms and supporting documentation must be submitted to the Program Administrator within five (5) business days of missing the work or mid-term exam.

**Missed Final Exams**

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.

## Requesting Relief for Term Work in Advance

If evaluated term work is missed, students can request relief/special arrangement in advance. Supporting documentation must be submitted to the Program Administrator at least ten (10) working days before the mid-term exam, test, assignment, etc. The program administrator will provide the required forms to the student. Please complete the Petition for Missed Term Work form in addition to:

- For medical reasons the McMaster University Student Health Certificate and for extenuating circumstances, appropriate documentation is required.
- Due to a business commitment (for part-time students only), have your immediate supervisor provide you with a letter on the company letterhead stating that you are unable to be present due to a specific job commitment.
- For varsity reasons, have a designated University official provide a letter on university letterhead.

In all cases, the request must be handled by The Program Administrator. The appropriate distribution of re-weighting term work will be determined by the instructor. Submitting a request does not guarantee approval or special consideration.

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### *ACADEMIC ACCOMMODATION OF STUDENTS WITH DISABILITIES*

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Student Accessibility Services (SAS) offers various support services for students with disabilities. Students are required to inform SAS of accommodation needs for course work at the outset of term. Students must forward a copy of such SAS accommodation to the instructor normally, within the first three (3) weeks of classes by setting up an appointment with the instructor. If a student with a disability chooses NOT to take advantage of an SAS accommodation and chooses to sit for a regular exam, a petition for relief may not be filed after the examination is complete. The SAS website is:

<http://sas.mcmaster.ca>

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

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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.

[www.degroote.mcmaster.ca](http://www.degroote.mcmaster.ca)

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*POTENTIAL MODIFICATION TO THE COURSE*

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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.

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*COPYRIGHT AND RECORDING*

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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.

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*ACKNOWLEDGEMENT OF COURSE POLICIES*

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Your enrolment in MFIN 710 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.

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*COURSE SCHEDULE*

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**MFIN 710**  
**Financial Theory**  
**Winter 2024 Course Schedule**

| WEEK | DATE    | ASSIGNMENT                                                                                                                             |
|------|---------|----------------------------------------------------------------------------------------------------------------------------------------|
| 1    | Jan. 09 | Overview, Consumption & Investment, Financial System<br><i>Readings:</i><br>- CWS: Chapters 1, 2.                                      |
| 2    | Jan. 16 | Financial Intermediation, Banking Regulations, SVB demise<br><i>Readings:</i><br>- CWS: Chapters 3, 4.                                 |
| 3    | Jan. 23 | No-Arbitrage Pricing, IR Term Structure, Impact of Credit Risk<br><i>Readings:</i><br>- CWS: Chapters 3,4, Supplemental - to be posted |
| 4    | Jan. 30 | Corporate Finance, Capital Structure, Cost of Capital<br><i>Readings:</i><br>- CWS: Chapter 14                                         |
| 5    | Feb. 06 | Investment Banking Simulation Exercise (FINSIMCO)<br><i>Round 1:</i>                                                                   |
| 6    | Feb. 13 | Investment Banking Simulation Exercise (FINSIMCO)<br><i>Round 2:</i>                                                                   |
| 7    | Feb. 20 | Reading Week                                                                                                                           |
| 8    | Feb. 27 | Midterm                                                                                                                                |
| 9    | Mar. 06 | Investment Banking Simulation Exercise (FINSIMCO)<br><i>Round 3:</i>                                                                   |
| 10   | Mar. 13 | Investment Banking Simulation Exercise (FINSIMCO)<br><i>Round 4:</i>                                                                   |

|    |         |                                                                                                                                  |
|----|---------|----------------------------------------------------------------------------------------------------------------------------------|
| 11 | Mar. 20 | Portfolio Selection in Practice, Advanced factor models<br>Readings:<br>- <i>CWS: Chapters 5, 6, Supplemental - to be posted</i> |
| 12 | Mar. 27 | Introduction to Behavioral Finance<br>Readings:<br>- <i>Supplemental - to be posted</i>                                          |
| 13 | Apr. 03 | Goal Based Portfolio Choice<br>Readings:<br>- <i>Supplemental - to be posted</i>                                                 |
| 14 | Apr. 10 | Catch-up & Review                                                                                                                |