

FINANCE 605
Financial Instruments and Their Markets
Fall 2024 Course Outline

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

Narat Charupat

Instructor

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DSB 314

Office Hours: To be conducted on-line (see Avenue)

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Teaching Assistant

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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(s): 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 will be able to complete the following key tasks:

- 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 MATERIALS AND READINGS

There is not one textbook that contains all the materials that are covered in this course. The closest one is:

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

Term Paper	See Below	20%
Valuation Project	(see Note 1)	15%
Midterm Exam	(see Note 2)	30%
Final Exam	(see Note 3)	35%
Total		100%

Notes:

- 1) The valuation project spans all five first-term MFin courses. In the project, students use the knowledge that they acquire from all the five courses to value a non-financial Canadian company. The weight of the valuation project is 15% of the final grade. The breakdown of the 15% is as follows – 10% depends on the presentation and the summary report (to be assessed by the judging panel); and 5% depends on the written report that students submit and the extent to which the knowledge from this course is correctly applied.
- 2) The midterm exam is scheduled to take place on Tuesday October 24 at 14:30.
- 3) The date for the final exam will be announced later.

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	POINTS
A+	90-100	12
A	85-89	11
A-	80-84	10
B+	75-79	9
B	70-74	8
B-	60-69	7
F	00-59	0

Course Deliverables

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 Tuesday October 8, each group must submit for approval a description of the topic and the plan for completing the paper (1-2 pages). Each group is strongly encouraged to discuss their idea with me prior to this date. Secondly, the term paper has to be submitted in class on Tuesday November 26. It is very important that each group starts working on the paper early.

Presentation

Each group will present their paper in class on Tuesday December 3. Each group will have 15-20 minutes to explain their paper, followed by 5 minutes of questions and discussions. The presentation will be judged based on its clarity and informativeness. In addition, all group members are expected to be able to answer questions from the audience satisfactorily.

Participation

Please note that although there is no participation mark in this course, students' participation is welcome and appreciated. Participation can be in the form of answering questions or asking own questions.

In class, name cards and class pictures are used to help us identify you. You must have a name card with your **full first and last name** clearly written and displayed in front of you for every class.

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 Administrative Assistant.

Students who have concerns about the course content, evaluation methods, or delivery should first reach out to the course instructor. If your concern remains unresolved after speaking with the instructor, you may then reach out to the relevant Area Chair for further consideration.

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

Students are responsible for being aware of and demonstrating behaviour that is honest and ethical in their academic work. Such behaviour includes:

- following the expectations articulated by instructors for referencing sources of information and for group work;
- asking for clarification of expectations as necessary;
- identifying testing situations that may allow copying;
- preventing their work from being used by others (e.g., protecting access to computer files); and
- adhering to the principles of academic integrity when conducting and reporting research.

COURSES WITH AN ONLINE ELEMENT

All courses use some online elements (e.g. e-mail, Avenue to Learn (A2L), LearnLink, web pages, capa, Moodle, ThinkingCap, etc.). Students should be aware that, when they access the electronic components of a course using these elements, 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.

Students may be required to use the Respondus LockDown Browser and Respondus Monitor. The Respondus LockDown Browser is a downloadable program that allows a student to take an Avenue to Learn quiz in a secure environment. Quizzes can be set to use LockDown Browser or LockDown Browser.

For more details about McMaster's use of Respondus Lockdown Browser please go to <https://avenuehelp.mcmaster.ca/exec/respondus-lockdown-browser-and-respondus-monitor/>

The available information is dependent on the technology used. Continuation in a course that uses online elements will be deemed consent to this disclosure. If you have any questions or concerns about such disclosure, please discuss this with the course instructor.

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, Teams, 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.

ATTENDANCE

Arriving late or missing class disrupts the learning experience for both you and your peers. Punctuality and attendance are crucial to maintaining a respectful, professional and productive environment for everyone, including our faculty.

Instructors may use Top Hat in their course in a variety of ways, including to capture attendance in their classes. Attendance is recorded by submitting a unique 4-digit code displayed in your physical classroom using your personal device.

MISSED ACADEMIC WORK

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, [Petition For Relief For MFin Missed Term Work](#) and [McMaster University Student Health Certificate](#) or other supporting documentation must be submitted

to the Program Administrator at mfin@mcmaster.ca within five (5) business days of missing the work or mid-term exam.

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 Program Office to write a deferred examination by submitting an [Application for Deferring a Final Exam](#) and [McMaster University Student Health Certificate](#) or other supporting documentation. The application must be made within five days of the scheduled exam.

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 Program Office and agreed to by the course instructor.

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

ACADEMIC ACCOMMODATION FOR STUDENTS WITH DISABILITIES

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>

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 the Program Office ***normally within 10 working days*** of the beginning of term in which they anticipate a need for accommodation. 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.

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 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 registration and continuous participation (e.g. on A2L, in the classroom, etc.) to the various learning activities of 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 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

Class	Date	Topic
1	Sept 10	Introduction – Overview of financial instruments and their markets; Long-term debt securities; government bonds; corporate bonds
2	Sept 17	Term structure of interest rates; bond pricing; yields; duration; convexity; default risk; bond ratings; credit spreads
3	Sept 24	Equity – market structure; preferred shares; common shares; dividends; share buybacks
4	Oct 1	Initial public offering; seasoned equity offering; stock market indices
5	Oct 8	Short-term debt securities Due: Topic of the term paper and plan for completing it
6	Oct 15	Derivatives and their markets (Part 1 – forward and futures)
	Oct 22	Midterm exam
7	Oct 29	Derivatives and their markets (Part 2 – options and structure Products)
8	Nov 5	Special presentation by Ms. Sara Yazdi, *****
9	Nov 12	Insurance Products (Part 1 – Theoretical foundation; Property insurance)
10	Nov 19	Insurance Products (Part 2 – Life insurance; Life annuity)

11	Nov 26	Mutual funds and exchange-traded funds Due: Term paper
12	Dec 3	Term paper presentation

Note: The above schedule is subject to change.