Course Outline

RSM 332 H1 F, L0101, L0201, L0301
Capital Market Theory
Fall 2018
Course Meets: Mon. 11am-1pm WO 25 (L0101), Mon. 2-4pm WO 35 (L0201), Tue. 2-4pm WO 25 (L0301)

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Course Scope and Mission
This is an introductory course of finance. The course provides an introduction to the capital market as well as a framework for analyzing the major types of investment and financial decisions made by investors. Lectures and readings will provide an introduction to present value techniques, pricing of stocks and bonds, portfolio theory, asset pricing models, option pricing, and the operation and efficiency of financial markets.

Course Prerequisites
Exclusion: ACT349H1, ECO358H1
Co-requisite: ECO204Y1/ECO206Y1, ECO220Y1/ECO227Y1/(STA220H1, STA255H1)/(STA257H1, STA261H1)
If you drop any of the co-requisite courses during the academic term, you must also drop this course. Contact Rotman Commerce Academic Program Services for academic advising if needed.

Required Readings
The required textbook is:
L. Booth, W. S. Cleary, and Ian Rakita, Introduction to Corporate Finance, 4th edition, John Wiley & Sons Canada, 2016 (BCR, ISBN: 978-1-119-17128-7).

Three optional texts are recommended for this course:
- T. E. Copeland, J. F. Weston, and K. Shastri, Financial Theory and Corporate Policy, 4th edition, Addison-Wesley, 2004 (ISBN: 0-32-112721-8).
- C. Holden, Excel Modeling in Investments, 5th edition, Pearson, 2014 (ISBN: 978-0-205-98724-5).
- B. Malkiel, A Random Walk Down Wall Street, 12th edition, Norton, 2016 (ISBN: 978-0-393-35224-5).

Evaluation and Grades

Work		Due Date
Problem Sets	10%	See schedule
Mid Term Exam	35%	October 23 8:00 – 10:00 p.m.
Final Exam	55%	During the A&S Final Examination period

There will be one midterm counting for 35% and one final examination counting for 55% of the course grade. For the examinations, you are allowed to bring in a calculator and an 8.5 × 11 inch single-sided "crib" sheet on which you may write down whatever you wish. If the sheet is typed or contains photocopied materials, the font size has to be 10 point or larger. In addition, there will be four problem sets, covering different topics in the course. Doing these problem sets is essential to obtain a good understanding of the course materials. These problem sets are to be turned in and graded (each problem set will receive a grade of 0–4, where 0 gets no credit and 4 gets 100% credit). The four problem sets count for 10% of the final grade and they will be important determinants in borderline cases. You are encouraged to work in groups on the problem sets. You should, however, independently write up your own assignment. Assignments are due at the start of the class and late ones are not accepted. Except for unusual circumstances, grades on homework assignments are final and re-grading requests will not be accepted.

Juxian Wang (E-mail: andreww.wang@mail.utoronto.ca), the lead TA for the course, will hold three weekly tutorials. Time and location:TBA. The first tutorial will be on September 20 and the last one will be on Dec. 7. Juxian will maintain a website, rsm332.org, where he will post some useful materials (including old exams).

Missed Midterm
Students who miss a test or assignment for reasons entirely beyond their control (e.g. illness) may submit a request for special consideration. Provided that notification and documentation are provided in a timely manner, and that the request is subsequently approved, no academic penalty will be applied.

In such cases, students must notify Rotman Commerce on the date of the missed test (or due date in the case of course work) and submit supporting documentation (e.g. Verification of Student Illness or Injury form) to the Rotman Commerce Program Office within **2 business days** of the originally scheduled test or due date. Students who do not provide Rotman Commerce or the instructor with appropriate or sufficient supporting documentation will be given a grade of 0 (zero) for the missed test or course deliverable.

Documentation submitted in support of petitions for missing tests and assignments must be original; no faxed or scanned copies will be accepted

Note that the physician's report must establish that the patient was examined and diagnosed at the time of illness, not after the fact. Rotman Commerce will not accept a statement that merely confirms a report of illness made by the student and documented by the physician.

Students who miss the midterm due to illness and have provided the necessary documentation as outlined above will be granted a make-up midterm.

Accessibility Needs
The University of Toronto is committed to accessibility. If you require accommodations for a disability, or have any accessibility concerns about the course, the classroom or course materials, please contact Accessibility Services as soon as possible: accessibility.services@utoronto.ca or http://www.studentlife.utoronto.ca/as.

Academic Integrity
Academic Integrity is a fundamental value essential to the pursuit of learning and scholarships at the University of Toronto. Participating honestly, respectively, responsibly, and fairly in this academic community ensures that the UofT degree that you earn will continue to be valued and respected as a true signifier of a student's individual work and academic achievement. As a result, the University treats cases of academic misconduct very seriously.

The University of Toronto's Code of Behaviour on Academic Matters
http://www.governingcouncil.utoronto.ca/policies/behaveac.htm outlines the behaviours that constitute academic misconduct, the process for addressing academic offences, and the penalties that may be imposed. You are expected to be familiar with the contents of this document. Potential offences include, but are not limited to:

In papers and assignments:
- Using someone else's ideas or words without appropriate acknowledgement.
- Submitting your own work in more than one course without the permission of the instructor.
- Making up sources or facts.
- Obtaining or providing unauthorized assistance on any assignment (this includes collaborating with others on assignments that are supposed to be completed individually).

On test and exams:
- Using or possessing any unauthorized aid, including a cell phone.
- Looking at someone else's answers
- Misrepresenting your identity.
- Submitting an altered test for re-grading.

Misrepresentation:
- Falsifying institutional documents or grades.
- Falsifying or altering any documentation required by the University, including (but not limited to), medical notes.

All suspected cases of academic dishonesty will be investigated by the following procedures outlined in the *Code of Behaviour on Academic Matters.* If you have any question about what is or not is permitted in the course, please do not hesitate to contact the course instructor. If you have any questions about appropriate research and citation methods, you are expected to seek out additional information from the instructor or other UofT resources such as College Writing Centres or the Academic Success Centre.

Email
At times, the course instructor may decide to communicate important course information by email. As such, all UofT students are required to have a valid UTmail+ email address. You

are responsible for ensuring that your UTmail+ email address is set up AND properly entered on the ROSI system. For more information please visit http://help.ic.utoronto.ca/category/3/utmail.html

Forwarding your utoronto.ca email to a Hotmail, Gmail, Yahoo or other type of email account is not advisable. In some cases, messages from utoronto.ca addresses sent to Hotmail, Gmail or Yahoo accounts are filtered as junk mail, which means that important messages from your course instructor may end up in your spam or junk mail folder.

Quercus and the Course Page
The online course page for this course is accessed through Quercus. To access the course page, go to q.utoronto.ca and log in using your UTORid and password. Once you have logged in, you will be at the Quercus Dashboard. On this page you will see all of the courses you are presently enrolled in. If you don't see the course listed here but you are properly registered for the course in ROSI, wait 48 hours.

Recording Lectures
Lectures and course materials prepared by the instructor are considered by the University to be an instructor's intellectual property covered by the Canadian Copyright Act. Students wishing to record a lecture or other course material in any way are required to ask the instructor's explicit permission, and may not do so unless permission is granted (note: students who have been previously granted permission to record lectures as an accommodation for a disability are, of course, excepted). This includes tape recording, filming, photographing PowerPoint slides, Blackboard materials, etc.

If permission is granted by the instructor (or via Accessibility Services), it is intended for the individual student's own study purposes and does not include permission to "publish" them in anyway. It is absolutely forbidden for a student to publish an instructor's notes to a website or sell them in any other form without formal permission.

The approximate lecture schedule for the course is:

TOPIC	Date
Introduction: Introduction to the course: BCR (Ch.1–2) (Note: if you need a refresh of financial accounting, review Ch.3 and Ch.4.1–4.7 as well)	Sep. 10/11
Financial Markets and Net Present Value: Fisher's Separation Theorem	Sep. 17/18
Bond Valuation: Review of time value of money. Pricing of Bonds, yield-to-maturity, duration, BCR (Ch.5, Ch.6)	Sep. 24/25
Term Structure Theory: Term structure of interest rates, forward rates: BCR (Ch. 11.1, Appendix 11A) Due date of problem set #1	Oct. 1/2
Valuation of Stocks: Common stock valuation and growth opportunities: BCR (Ch.4.8-4.9, Ch.7) Makeup class for L0101 and L0201: Oct. 9 6-8p.m., Location: TBA	Oct. 8/9
Risk and Return: Trade-off between risk and return, statistics review: BCR (Ch.8.1–8.3, 8.5) Due date of problem set #2	Oct.15/16
Midterm: Midterm covers material up to the previous week. Time: 8–10p.m., Location: TBA	Oct. 23
Portfolio Theory: Portfolio mathematics, diversification, efficient portfolios: BCR (Ch.8.4, Appendix 8.A, Ch.9.1).	Oct. 29/30
Capital Asset Pricing Model: Introduction to the CAPM: BCR (Ch.9.2–9.3)	Nov. 12/13
Option Pricing 1: Calls and Puts, Put-Call Parity, No-arbitrage relation: BCR (Ch.12) Due date of problem set #3	Nov. 19/20
Option Pricing 2: Binomial model and Black-Scholes formula: BCR (Ch.12)	Nov. 26/27
Operation and Efficiency of Capital Markets: Efficient market hypothesis: BCR (Ch.10). Due date of problem set #4	Dec. 3/4