



# Rotman Commerce UNIVERSITY OF TORONTO

## Course Outline

### RSM 332H1S Capital Market Theory

#### Winter 2019

**Course meets: L0101** Tuesday, 2 – 4 p.m., ES B142

**L0201** Wednesday, 12 – 2 p.m., SK 542

**L0301** Wednesday, 4 – 6 p.m., WO 25

**L5101** Tuesday, 6 – 8 p.m., WO 35

**L5201** Monday, 6 – 8 p.m., WO 35

---

**Instructor:** Kevin Wang, Rotman Room 462  
**E-Mail:** [kwang@rotman.utoronto.ca](mailto:kwang@rotman.utoronto.ca)  
**Phone:** 416-946-5059  
**Office Hours:** Wednesday 6pm-8pm (or we can discuss anything right after every class)

### 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	Weighting	Date
Problem Sets	10%	See schedule
Midterm Exam	35%	See schedule
Final Exam	55%	During the Final Exam period

---

There will be one midterm counting for 35% and one final examination counting for 55% of the course grade. For the exams, you may use a calculator and a single-sided 8.5" × 11" crib sheet on which you may write down anything. If the sheet is typed or contains photocopied materials, the font size must be 10 points or larger.

In addition, there will be two 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.

The problem sets count for 10% of the final grade. Students are encouraged to work in groups of two or three persons on the problem sets (of course, you may work alone if you'd like to or somehow have to). There should be only one submission from each group.

Assignments are due at the start of the designated class. Late submissions will not be accepted. Except for unusual circumstances, grades on homework assignments are final and re-grading requests will not be accepted (especially if written with a pencil).

### 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. The Request for Special Consideration Form and supporting documentation must be submitted in a timely manner in order for the request to be reviewed.

In such cases, students must notify the Rotman Commerce Program Office on the date of the course deliverable such as a missed test, or assignment missed class (in the case of participation

marks), or due date. They must then complete a [Request for Special Consideration Form](#) and submit it along with supporting documentation (e.g. [Verification of Student Illness or Injury form](#)) to the Rotman Commerce Office within **2 business days** of the originally scheduled course deliverable. Students who do not provide appropriate or sufficient supporting documentation will be given a grade of 0 (zero) for the missed 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 later report of illness made by the student to a 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](mailto: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, respectfully, 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 course web page (for all class slides) will be provided to you by email. Quercus may not be used (at least not extensively in general). If you are newly enrolled and have not received my email with the link, please email me immediately.

#### 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, Quercus 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:

<u>TOPIC</u>	<u>Date</u>
<b>Introduction:</b> 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)	Jan. 7-9
<b>Financial Markets and Net Present Value:</b> Fisher's Separation Theorem	Jan. 14-16
<b>Bond Valuation:</b> Review of time value of money. Pricing of Bonds, yield-to-maturity, duration, BCR (Ch.5, Ch.6)	Jan. 21-23
<b>Term Structure Theory:</b> Term structure of interest rates, forward rates: BCR (Ch. 11.1, Appendix 11A) Due date of problem set #1	Jan. 28-30
<b>Valuation of Stocks:</b> 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	Feb. 4-6
<b>Risk and Return:</b> Trade-off between risk and return, statistics review: BCR (Ch.8.1–8.3, 8.5) Due date of problem set #2	Feb. 11-13
<b>Midterm:</b> Midterm covers material up to the previous week. Time: 8–10p.m., Location: To be determined	Feb. 25
<b>Portfolio Theory:</b> Portfolio mathematics, diversification, efficient portfolios: BCR (Ch.8.4, Appendix 8.A, Ch.9.1).	Mar. 4-6
<b>Capital Asset Pricing Model:</b> Introduction to the CAPM: BCR (Ch.9.2–9.3)	Mar. 11-13
<b>Option Pricing 1:</b> Calls and Puts, Put-Call Parity, No-arbitrage relation: BCR (Ch.12) Due date of problem set #3	Mar. 18-20
<b>Option Pricing 2:</b> Binomial model and Black-Scholes formula: BCR (Ch.12)	Mar. 25-27
<b>Operation and Efficiency of Capital Markets:</b> Efficient market hypothesis: BCR (Ch.10). Due date of problem set #4	Apr. 1-3