

YORK
UNIVERSITÉ
UNIVERSITY
Faculty Liberal Arts and Professional Studies
Department of Economics

Course: AP/ECON 4400 3.0 A: Financial Economics (In-person)

Course Webpage: <http://eclass.yorku.ca>

Term: Fall Term 2022

Prerequisite / Co-requisite:

Prerequisites: AP/ECON 2300 3.00 and AP/ECON 2350 3.00 or equivalents.

Course credit exclusions: AP/ADMB 3530 3.00, AP/ADMS 3530 3.00, GL/ECON 4310 3.00.

Course Instructor

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Teaching Assistant: TBA

Time and Location: Lectures T 11:30 AM - 2:30 PM ACE 013

Course Organization

The course is organized in a lecture format; however, your questions, comments and feedback are welcome at any point of time, both inside and outside the classroom. Technology is extensively used for delivering instruction and interactive activities in the classroom and via the course website on eClass.

Please make it a habit of checking the course website on eClass on a regular basis for current course announcements, lecture handouts, practice quizzes and exercises, and assigned readings. Although **lecture notes** will be provided on eClass ahead of time, they **are not** meant to be a comprehensive treatment of the material, nor are they **a substitute for the textbook or class attendance**. **You are responsible to make up for the material covered in class if you miss a lecture.**

On eClass, there is a separate discussion board for each topic we cover in class as well as for general and course administration questions. There are economies of scale for me and a positive externality for your classmates if you post all questions, comments, and thoughts about the course content to the relevant eClass discussion board rather than e-mailing me. It is a great learning experience for you to answer questions your classmates have posted. I monitor these boards and respond on a regular basis.

Please note that all course materials posted on eClass are proprietary. **You do not have permission to duplicate, copy and/or distribute any course materials outside of the class** (these acts can violate not only copyright laws but also [FIPPA](#)).

Please use your York email account for correspondence. Do not forget to sign your name.

Expanded Course Description

ECON 4400: Financial Economics and its continuation, ECON 4410: Corporate Finance, are applied courses in corporate finance, which aim to develop an understanding of the theoretical foundation of modern finance and make the theory come to life through contemporary examples. In ECON 4400, we focus on two major questions faced by the firm:

- 1) What projects should the firm invest in?
- 2) What sources of financial capital can the firm use for its investment activities?

The course will assist you in improving your quantitative skills as well as your ability to read critically and understand the financial press. Topics include net present value, capital budgeting, efficiency of capital markets, treatment of risk, valuation of equity and debt, and financial strategy.

Course Objectives and Learning Outcomes

Upon completing this course, you will be able to:

- describe and analyze basic accounting statements
- define and apply modern approaches to asset valuation
- describe, compare and contrast the major capital budgeting methods
- identify the limitations of each capital budgeting method
- identify relevant inputs for a capital budgeting problem
- display awareness of behavioral theories of human decision-making
- describe and interpret fundamental theories of asset pricing and their implications for corporate decision making
- identify underlying assumptions of financial theories and assess the implications of changes to these assumptions
- apply concepts and models learned in class to solve financial problems in written mathematical form
- apply concepts and theories learned in class to case studies and real-world problems
- identify the potential and limitations of financial theory in dealing with real-world problems

Course Text / Readings

Required Text: Ross, Stephen A., Randolph W. Westerfield, Jeffrey F. Jaffe, and Hamdi Driss, *Corporate Finance*, 9th Canadian Edition, McGraw-Hill Ryerson, 2022.

Print text: ISBN10: 1260881377 | ISBN13: 9781260881370

eBook (180-day access): ISBN10: 1265017549 | ISBN13: 9781265017545

The text is available for a two-hour loan at the Scott Library reserves. For those on a tight budget, second-hand copies or previous Canadian editions as well as U.S. editions of the text are widely available.

Optional:

Financial Post, Wall Street Journal, Financial Times, Economist, and any other business news magazine or newspaper

Readings, videos and interactive activities suggested on the eClass course website

Evaluation

There are two grading schemes you can choose from. The first one is based on a midterm and a final exam. In addition, the second grading scheme provides you with the opportunity to work on group projects. I would highly recommend the second option to everyone. Teamwork skills are valued in both the workplace and academia. Your ability to work in a team is one of the criteria your reference must assess you on if you apply to a graduate business program.

Grading Scheme 1:

1. A midterm exam (45 % of grade). The midterm will be held in person on **Oct. 18th** during class time.

2. A comprehensive final exam (55 % of grade). The final exam date, time and location will be set by the Registrar's Office during the final examination period, Dec. 8-23.

The midterm and the final are both **closed book exams**. The final exam is cumulative with a greater emphasis on the material covered after the midterm. The course grade will be determined by the following rule, which takes into consideration exceptionally strong performance on the cumulative final exam:

Course Grade = Max{(45% Midterm + 55% Final), 100% Final}

Grading Scheme 2:

You can opt to work in a group on projects that I will assign in class. There will be 3 group projects, and each project will be worth 8% for a maximum of 16%. If you choose to complete all three projects, the best two will count towards your final grade. You are responsible to form a group and each group should have no fewer than 4 people and no more than 5. **Individual projects will not be graded.**

If you submit one project, your course grade will be determined by the following rule:

Course Grade = Max{(41% Midterm + 51% Final + 8% Project), (92% Final + 8% Project)}

If you submit two (or three) projects, your course grade will be determined by the following rule:

Course Grade = Max{(37% Midterm + 47% Final + 16% Projects), (84% Final + 16% Projects)}

Detailed instructions on each assignment will be provided in class at least a week before the due date.

By taking this course, you agree that all group projects will be subject to submission for textual similarity review to Turnitin via eClass for the detection of plagiarism.

Homework problem sets and practice quizzes on each chapter will be made available on eClass. They will not be graded but you are encouraged to work on the assigned problems to reinforce the course material and prepare for exams. I tend to select some of these problems for your exams.

Up to one bonus point will be assigned if you are on the margin (e.g., your course grade computed based on the above grading scheme is 79) for regular and insightful posts on the eClass **discussion boards** and participation in **in-class activities**. There is no make-up for such activities. Final course grades may be adjusted to conform to Program or Faculty grades distribution profiles.

Concerns about apparent grading errors will be considered during the term, but requests for “extra credit” or other special considerations in assigning grades will be ignored.

Grading

The grading scheme for the course conforms to the 9-point grading system used in undergraduate programs at York (e.g., A+ = 9, A = 8, B+ = 7, C+ = 5, etc.). Assignments and tests will bear a number grade that you can convert into a letter grade using the standard York University conversion table (e.g., A+ = 90 to 100, A = 80 to

90, B+ = 75 to 79, etc.). For a full description of York grading system see the York University Undergraduate Calendar

<https://calendars.students.yorku.ca/2022-2023/grades-and-grading-schemes>

Missed Exams

Midterm

There will be **no make-up midterm exam** for any reason. **The midterm exam is not optional.** If you **miss a midterm exam, you will receive a grade of zero** (that is, your course grade will be equal to 55% Final, assuming you choose not to work on the group projects) unless you email me within two weeks of the exam date with a detailed explanation of the reasons for missing the midterm exam.

If you **miss a midterm exam for a valid reason** (e.g., medical emergency) and you email me within two weeks of the date of the midterm, your final exam will carry the extra weight (e.g., 100% instead of 55% if you choose not work on the group projects).

Final

For students who **miss the final**, the [Department of Economics Guidelines on Deferred Standing](https://www.yorku.ca/laps/econ/undergraduate-programs/academic-resources/department-policies/deferred-standing/) apply. In such cases, students should submit a Mach form request online at

<https://www.yorku.ca/laps/econ/undergraduate-programs/academic-resources/department-policies/deferred-standing/>

The date and time of the deferred exam will be set at a later date. Students who may require further extensions will have to submit a formal petition to the Faculty.

Academic Honesty and Integrity

It is our joint responsibility to strive to maintain academic integrity to the highest extent possible. Academic integrity is the pillar of higher education. Breaches of academic integrity such as cheating on exams affect all of us adversely, including the cheaters - your degree is as valuable as the reputation for academic honesty of our institution.

Familiarize yourself with the meaning of academic integrity by completing SPARK's [Academic Integrity module](#) at the beginning of the course. All instances of academic dishonesty in this course will be reported to the appropriate university authorities, and can be punishable according to the [Senate Policy on Academic Honesty](#).

The following quote by Madison Sarratt (1891-1978), an academic and administrator at Vanderbilt University, sums up beautifully my personal stance:

Tomorrow I will give you two examinations, one in trigonometry and one in honesty. I hope you will pass them both, but if you must fail one, let it be trigonometry, for there are many good people in this world today who cannot pass an examination in trigonometry, but there are no good people in the world who cannot pass an examination in honesty.

Familiarize yourself with the meaning of academic integrity by completing SPARK's [Academic Integrity module](#) at the beginning of the course. All instances of academic dishonesty in this course will be reported to the appropriate university authorities, and can be punishable according to the [Senate Policy on Academic Honesty](#).

Always remember that I am not trying to catch you cheating. I am working on your side, making sure you understand the meaning and importance of academic integrity. If you ever have any questions and concerns, please do not hesitate to speak with me.

Staying Safe in a COVID-19 Environment

This Fall, I am very excited to welcome you back to my classroom in person after a long hiatus.

We need to remember, however, that COVID-19 is here to stay and take all necessary actions to keep ourselves and everyone safe. In a rapidly changing environment, it is important that we keep up to date with COVID-19 information on York's Better Together website. While masks are currently not mandatory, we are meeting in a very large group and I kindly ask you to wear a mask during class for the benefit of all. However, I want to remind you that we are all striving to adjust to a new normal. Be kind and respectful of everyone's choice.

Below are some actions recommended by York that we can all take to keep safe:

- **It is recommended to keep your vaccination status up to date.** This includes getting COVID-19 boosters, as well as the flu vaccine, when available. York will offer COVID-19 vaccination clinics on Aug. 17 and 18 at our Keele campus. Visit the [provincial booking site](#) for details to book an appointment. International students are recommended to look out for information and access to the University Health Insurance Plan in August.
- **We encourage you to continue wearing a face mask indoors, especially where physical distancing is not possible.** N-95 and surgical masks are available for purchase at a discount on campus at locations, such as York Lanes, the Life Sciences Building and Central Square.
- **If you are feeling unwell, don't come to campus.** [Rapid tests](#) continue to be available at the Keele and Glendon campuses. Use the [YU Screen](#) self-assessment for recommendations on next steps and to connect with someone for guidance, even if you are unsure about your symptoms.
- **Read through and familiarize yourself with the [vaccination policy](#) and [masking protocols](#).** These policies were paused earlier in the spring, but may be reinstated on short notice.

Tentative Course Topics

Week	Topic
Sept. 13	Ch. 1 Introduction to Corporate Finance
Sept. 20	Ch. 2 Accounting Statements and Cash Flow
Sept. 27	Ch. 5 The Time Value of Money
Oct. 4	Ch. 6 How to Value Bonds and Stocks
Oct. 18	Midterm Exam
Oct. 25	Ch. 7 Net Present Value and Other Investment Rules Note: This lecture will be held remotely via Zoom
Nov. 1	Ch. 8 Net Present Value and Capital Budgeting
Nov. 8	Ch. 9: Risk Analysis, Real Options, and Capital Budgeting
Nov. 15	Ch. 10 Risk and Return: Lessons from Market History Ch. 11: Risk and Return: The CAPM
Nov. 22	Ch. 12 An Alternative View of Risk and Return: The Arbitrage Pricing Theory
Nov. 29	Ch. 13 Risk, Return, and Capital Budgeting
Dec. 6	Ch. 14 Corporate Financing Decisions and Efficient Capital Markets

Note: The above list of topics is tentative and subject to change. Exam dates are firm.

Important Course Information for Students

All students are expected to familiarize themselves with the following information, available on the University Secretariat webpage - <http://secretariat-policies.info.yorku.ca>.

- Senate Policy on Academic Honesty and the Academic Integrity Website
<http://calendars.registrar.yorku.ca/2015-2016/policies/honesty/index.htm>
- Course requirement accommodation for students with disabilities, including physical, medical, systemic, learning and psychiatric disabilities
- Student Conduct Standards
- Religious Observance Accommodation

Course ADD/Drop Deadlines*

	Fall Term 2022 (F)	Winter Term 2023 (W)
Last date to add a course without permission of instructor (also see Financial Deadlines)	Sept. 20	Jan. 22
Last date to add a course with permission of instructor (also see Financial Deadlines)	Oct. 4	Feb. 6
Last date to drop a course without receiving a grade (also see Financial Deadlines)	Nov. 11	March 17
Course Withdrawal Period (withdraw from a course and receive a grade of “W” on transcript – see note below)	Nov. 13 - Dec. 7	March 18 - Apr. 11

**For more dates and information, see: <https://registrar.yorku.ca/enrol/dates/2022-2023/fall-winter>*