



Rotman Commerce UNIVERSITY OF TORONTO

Course Outline

RSM332

Capital Market Theory

Fall 2011

Course Meets: L0501 - Wednesday, 2pm-4pm, WO25; L0601 – Wednesday, 4pm-6pm, WO25;
L0701 – Thursday, 3pm-5pm, WO20

Instructor: Mike Simutin, RT463
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Phone: 416 946-8088
Office Hours: Tuesday 1:30pm-3:00pm and Thursday 10:00am-11:30am

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, and the operation and efficiency of financial markets.

Course Prerequisites

Exclusion: ACT349H1, ECO358H1, ECO359H1, MGT337Y1

Co-requisite: ECO204Y1/ECO206Y1, ECO220Y1/ECO227Y1/(STA250H1, STA255H1)/(STA257H1, STA261H1)

Course Materials

The required textbook is:

L. Booth, and W. S. Cleary, Introduction to Corporate Finance, 2nd edition, John Wiley & Sons Canada, 2010 (BC, ISBN: 978-0-470-16110-4).

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 and Estimation in Corporate Finance, 3rd edition, Prentice Hall, 2008 (ISBN: 0-13-602561-7).
- B. Malkiel, A Random Walk Down Wall Street, 11th edition, Norton, 2011 (ISBN: 0-39-308143-5).

Course Requirements and Grading

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 “cheat 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. If you miss an examination, it is important that you inform me and the commerce office right away. In case you miss the examination for legitimate reasons, a makeup test will be given.

In addition, there will be two problem sets, covering different topics in the course. Doing these problem sets is essential to obtaining 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 two 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 regrading requests will not be accepted.

Course Website

The course website, <http://www.rotman.utoronto.ca/simutin/RSM332>, will have announcements, lecture slides, assignments, solutions to assignments, sample exams, extra problems, etc. Check it regularly. All course materials will be posted there and not on Blackboard.

TA Sessions

Xiaofei Zhao (E-mail: xiaofei.zhao08@rotman.utoronto.ca), the lead TA for the course, will hold three weekly tutorials at the following times:

- Thursday 11am-1pm, UC140
- Friday 1-3pm, SS2118
- Friday 3-5pm, SS2118

UC is University College, located at 15 King’s College Circle

SS is Sidney Smith, located at 100 St. George Street

Exception: Tutorials on Dec. 8 and 9 will be held at MS2172

MS is Medical Sciences Building, located at 1 King’s College Circle

The first tutorial will be on September 22 and the last one will be on December 9. Xiaofei will maintain a website, <http://332ta.raykan.com>, where he will post some useful materials.

Missed Midterms

Students may miss a midterm test due to illness, domestic affliction, or in the case of part time students, work commitments, without academic penalty providing the appropriate documentation is received and approved in a timely manner.

In such cases students must notify Rotman Commerce on the date of the missed midterm and a medical certificate, employer's letter or other supporting evidence must be submitted to Rotman Commerce within 48 hours of the due date of the assignment or the test date. Students who do not provide Rotman Commerce or the instructor appropriate or sufficient supporting documentation will be given a grade of 0 (zero) for the test.

Accessibility Needs and Academic Honesty

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: disability.services@utoronto.ca or <http://www.accessibility.utoronto.ca/>.

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 UofT email address. You are responsible for ensuring that your UofT email address is set up AND properly entered on the ROSI system.

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.

The approximate lecture schedule for the course is:

<u>TOPIC</u>	<u>Date</u>
Introduction: Introduction to the course: BC (Ch.1–2) (Note: if you need to refresh financial accounting, review Ch.3 and Ch.4.1–4.7 as well)	Sep 14/15
Financial Markets and Net Present Value: Fisher’s Separation Theorem	Sep 21/22
Present Value Concepts: Mathematics and application of present value: BC (Ch.5)	Sep 28/29
Bond Valuation and Term Structure Theory: Bonds and introduction to theory of term structure of interest rates: BC (Ch.6, excluding appendix)	Oct 5/6
Valuation of Stocks: Common stock valuation and growth opportunities: BC (Ch.4.8, Ch.7) <i>Due date for problem set #1</i>	Oct 12/13
Risk and Return: Trade-off between risk and return, statistics review: BC (Ch.8.1–8.3, 8.5)	Oct 19/20
Optional Review for Midterm Exam Review dates and locations to be announced in early-mid October	Oct TBA
Midterm: <i>Time:</i> 8pm-10pm, <i>Location:</i> EX200 (255 McCaul Street). Midterm will cover material up to and including Oct 19/20	Oct 25
Portfolio Theory: Portfolio mathematics, diversification, efficient portfolios: BC (Ch.8.4, Appendix 8.A, Ch.9.1).	Oct 26/27
Capital Asset Pricing Model: Introduction to the CAPM: BC (Ch.9.2–9.3)	Nov 2/3
Arbitrage Pricing Theory: Factor models and the arbitrage pricing theory: BC (Ch.9.4)	Nov 9/10
CAPM and APT: More on CAPM and APT	Nov 16/17
Operation and Efficiency of Capital Markets: Efficient market hypothesis: BC (Ch.10)	Nov 23/24
Course Review <i>Due date for problem set #2</i>	Nov 30/Dec 1
Optional Review for Final Exam Review dates and locations to be announced in late November	Dec TBA