

# **John Molson School of Business**

Department of Finance

COMM 220 – Analysis of Markets

Summer 2013 Section AB

## **General Information**

Class time and location: Tuesdays & Thursdays 18:30 – 21:00 in MB-2.210

Course instructor: Loretta Hung

Office location: MB-12.231

Email: lorethun@jmsb.concordia.ca

Office hours: Wednesdays and Thursdays 12:00 – 14:00 or by appointment

## **Couse Description**

This course provides a general perspective on the history, operation and relationships between Canadian and international product, labour and financial markets. Specifically, students will be introduced to issues of fundamental importance to today's managers and entrepreneurs such as changes in structure and competitiveness in these markets in response to government policies, the determination and behaviour of interest rates, inflation, market integration, and the role and function of financial intermediation. It further provides students with the knowledge of the role and impact of regulation and other government interventions in these markets.

Prerequisite: COMM 210, 215; ECON 201 or equivalent; ECON 203 or equivalent previously or concurrently.

## **Learning Objectives**

COMM 220 builds upon the pre-requisite micro- and macro-economic courses students have previously taken and develops an integrated conceptual framework for the economic analysis of the relationships between firms, consumers, and the economic environment in which they operate. This course provides the necessary foundations for courses in areas of Finance, Management, Accounting, Marketing, and Entrepreneurship. The course objective is to provide students with an understanding of the key economic concepts used in the analysis of markets as well as the ability to draw upon these in application.

After studying this course students should be able to explain and illustrate

- How a competitive market works and how supply and demand determine the prices and quantities of goods and services.
- The firm's cost-minimization and profit-maximization processes.

- The effect of government policies and the resulting impact on consumers and producers.
- People's preferences toward risk and the ways that people can compare and choose among risky alternatives.
- The factors that cause interest rates and exchange rates to change and how they relate to bond pricing.
- The movement of short-term interest rates in the future using the yield curve.
- Gains are possible if countries specialize in the goods and services that they have comparative advantage.
- The basic function and effects of financial markets and financial intermediaries on the economy.
- How asymmetric information problems interfere with the efficient functioning of financial markets and how government regulation and financial intermediaries can lessen asymmetric information problems.

## Required Textbook

1. Pindyck and Rubinfeld, *Microeconomics*, 8<sup>th</sup> Edition, Prentice Hall, 2013.
2. *Coursepack*: COMM 220 – Analysis of Markets

## Course Evaluation

The final grade for the course will be based on the following components:

Two Class Tests @10% each	20%
Midterm Exam	30%
Final Exam	<u>50%</u>
Total	100%

**No make-up class test or midterm exam will be allowed.** If you miss a test or the midterm for a **valid and documented** reason, you must provide the documentation (i.e., the **original** of your doctor's note clearly stating the reasons why you cannot (or could not) write the test/midterm) **within seven days** of the test/midterm and the test/midterm weight will be added to the final exam. **If you miss a test or the midterm for an invalid reason or you fail to submit the documentation within the specified time limit, you will receive a zero for the test/midterm.**

The tests/exams are **closed book exam** and only a **non-programmable calculator** is permitted. All electronic devices (e.g., cell phones, laptops, etc.) must be turned off and deposited at the front or rear of the classroom during the test/exam. **A minimum grade of 40% on the final exam is required to pass the course. Students cannot write a 100% final.**

Exam	Date	Chapters
Class Test 1	May 16 (Thursday 20:00–21:00)	1, 2, 4, 6
Midterm	May 26 (Sunday 18:00–20:30)	1, 2, 4, 6, 7
Class Test 2	June 4 (Tuesday 20:00–21:00)	8, 9, 5
Final	To be announced (June 18–26)	Cumulative

I collect and keep all the exams. After you review your exam, if you have questions or objections, please convey your questions and objections in writing. I will not respond to your questions unless it is in writing.

## Letter Grades and Numerical Scores

Letter	Score	Letter	Score	Letter	Score	Letter	Score
A+	90 – 100	B+	77 – 79	C+	67 – 69	D+	57 – 59
A	85 – 89	B	73 – 76	C	63 – 66	D	53 – 56
A-	80 – 84	B-	70 – 72	C-	60 – 62	D-	50 – 52
FNS	< 50						

\* D- is the minimum requirement to pass the course.

## Class Schedule

The schedule may change depending on class progress; any changes will be announced in class. You are expected to read the assigned chapter(s) and topics before coming to class.

# of Lectures and Date(s)	Textbook	Topic(s)
0.5 May 2	<i>Microeconomics:</i> Chapter 1 <sup>1</sup>	1.1 The Themes of Microeconomics 1.2 What is a Market? 1.3 Real versus Nominal Prices 1.4 Why Study Microeconomics?
2 May 2,7,9	<i>Microeconomics:</i> Chapter 2  <i>Microeconomics:</i> Chapter 4	2.1 Supply and Demand 2.2 The Market Mechanism 2.3 Changes in Market Equilibrium 2.4 Elasticities of Supply and Demand 2.6 Understanding and Predicting the Effects of Changing Market Conditions 2.7 Effects of Government Intervention – Price Controls  Elasticity of Demand (p.126-128) Consumer Surplus (p.132-135)
1 May 9,14	<i>Microeconomics:</i> Chapter 6	6.1 Firms and Their Production Decisions 6.2 Production with One Variable Input (Labor) 6.3 Production with Two Variable Inputs 6.4 Returns to Scale

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<sup>1</sup> Only section 1.3 will be covered in class. However, you are expected to read the entire chapter so that you are familiar with the concepts used in the analysis of markets. If you have trouble with any of the concepts, please feel free to meet me during office hours.

# of Lectures and Date(s)	Textbook	Topic(s)
1 May 14,16	<i>Microeconomics:</i> Chapter 7	7.1 Measuring Cost: Which Costs Matter? 7.2 Cost in the Short Run 7.3 Cost in the Long Run 7.4 Long-Run versus Short-Run Cost Curves 7.5 Production with Two Outputs – Economics of Scope
<b>May 16</b>	<b>Class Test 1 (20:00–21:00)</b>	
1 May 21	<i>Microeconomics:</i> Chapter 8	8.1 Perfectly Competitive Markets 8.2 Profit Maximization 8.3 Marginal Revenue, Marginal Cost, and Profit Maximization 8.4 Choosing Output in the Short Run 8.5 The Competitive Firm's Short-Run Supply Curve 8.6 The Short-Run Market Supply Curve
1 May 23	<i>Microeconomics:</i> Chapter 9	9.1 Evaluating the Gains and Losses from Government Policies – Consumer and Producer Surplus 9.2 The Efficiency of a Competitive Market 9.3 Minimum Prices 9.4 Price Supports 9.6 The Impact of a Tax or Subsidy
<b>May 26 (Sun)</b>	<b>Midterm Exam Time: 18:00 – 20:30 Venue: MB-S2.210</b>	
1 May 28	<i>Microeconomics:</i> Chapter 5	5.1 Describing Risk 5.2 Preferences Toward Risk 5.3 Reducing Risk 5.4 The Demand for Risky Assets 5.5 Bubbles 5.6 Behavioral Economics
0.5 May 30	<i>Coursepack:</i> Chapter 4	Measuring Interest Rates The Distinction between Interest Rates and Returns The Distinction between Real and Nominal Interest Rates
0.5 May 30	<i>Coursepack:</i> Chapter 5	Determinants of Asset Demand Supply and Demand in the Bond Market Changes in Equilibrium Interest Rates Supply and Demand in the Market for Money: The Liquidity Preference Framework Changes in Equilibrium Interest Rates

# of Lectures and Date(s)	Textbook	Topic(s)
0.5 June 4	<i>Coursepack:</i> Chapter 6	Risk Structure of Interest Rates Term Structure of Interest Rates
<b>June 4</b>	<b>Class Test 2</b>	
0.5 June 6	<i>Coursepack:</i> Chapter 19	Foreign Exchange Market Exchange Rates in the Long Run Exchange Rates in the Short Run: A Supply and Demand Analysis Explaining Changes in Exchange Rates
1 June 6,11	<i>Coursepack:</i> Appendix to Chapter 19  <i>Dr. G. Lypny's Notes</i>	Comparing Expected Returns on Domestic and Foreign Assets Interest Parity Condition  International Markets: Gains from Trade Interest Rate Parity
0.5 June 11	<i>Coursepack:</i> Chapter 2	Function of Financial Markets Structure of Financial Markets Financial Market Instruments Internationalization of Financial Markets Function of Financial Intermediaries: Indirect Finance Types of Financial Intermediaries Regulation of the Financial System
0.5 June 13	<i>Coursepack:</i> Chapter 8	Basic Facts about Financial Structure Throughout the World Transaction Costs Asymmetric Information: Adverse Selection and Moral Hazard The Lemons Problem: How Adverse Selection Influences Financial Structure How Moral Hazard Affects the Choice Between Debt and Equity Contracts How Moral Hazard Influences Financial Structure in Debt Markets
June 13		Review
<b>Final Exam (June 18–26)</b>		

## Important Dates

May 8 (Wednesday): Deadline for withdrawal from the course with tuition refund

May 29 (Wednesday): Deadline for withdrawal from the course without tuition refund

## Tutorials

There will be two (2) tutorials each week starting May 4, 2013. Any change to the schedule will be posted in the "All Sections" folder on FirstClass.

Day	Time	Location	Tutor	1 <sup>st</sup> Tutorial	Last Tutorial
Saturdays	12:00–14:00 & 15:00–17:00	MB-3.210	Winnie	May 04**	June 15
Sundays	12:00–14:00 & 15:00–17:00	H-531	Jose	May 05**	June 16

\*\* The tutorials on May 4 and 5 will be a 2-hour session (12:00–14:00)

The tutorials will use material that is not available in the textbook or study guide, and give review prior to test/exam. Attending tutorials is not mandatory. However, you are strongly encouraged to attend at least one tutorial per week.

## First Class

We will use First Class to facilitate interaction. Each student should have access to the course site via existing computer accounts. The client can be downloaded from <http://jmsb.concordia.ca>; problems should be directed to [Help@concordia.ca](mailto:Help@concordia.ca).

## Student Responsibilities

**Read the assigned material before coming to class** and be prepared to participate in class discussions. Please understand that the class time is very limited and the material to be covered is very extensive; it is impossible to go over or even mention everything in class. Therefore, it is crucial that you read the assigned chapters and do the end-of-chapter problems on your own. If you have any questions, you can come and discuss them with me during office hours. You are responsible for what is covered in class and any absence on your part leaves you responsible for finding out what was presented in class.

## Classroom Discipline

It is important to observe silence and respect your classmates' right to hear and benefit from what is being said during class. Please turn your cell phones to silent mode and do not use them in class. Laptops are allowed in the classroom provided they are being used to take notes or for other class-related activities. A student who distracts attention of other students by consistently talking in classes will be asked to leave the room. For a second offence, **the penalty will be 15% off her/his final grade for the course.**

## Assessment of Learning Objectives

The learning objectives are assessed through class tests, midterm and final examinations.

Learning Objective \ Learning Activity	Class Tests	Midterm Exam	Final Exam
Explain and illustrate how a competitive market works and how supply and demand determine the prices and quantities of goods and services	Theory and algorithmic-type multiple-choice questions	Theory and algorithmic-type multiple-choice and exam questions	Theory and algorithmic-type multiple-choice and exam questions
Explain and illustrate the firm's cost-minimization and profit-maximization processes			
Explain and illustrate the effect of government policies and the resulting impact on consumers and producers			
Explain and illustrate people's preferences toward risk and the ways that people can compare and choose among risky alternatives			
Explain and illustrate the factors that cause interest rates and exchange rates to change and how they relate to bond pricing			
Explain and illustrate the movement of short-term interest rates in the future using the yield curve			
Explain and illustrate gains are possible if countries specialize in the goods and services that they have comparative advantage			
Explain the basic function and effects of financial markets and financial intermediaries on the economy			
Explain how asymmetric information problems interfere with the efficient functioning of financial markets and how government regulation and financial intermediaries can lessen asymmetric information problems			

## **Academic Integrity**

The Code of Conduct (Academic) at Concordia University states that “The integrity of University academic life and of the degrees, diplomas and certificates the University confers is dependent upon the honesty and soundness of the instructor-student learning relationship and, in particular, that of the evaluation process. Therefore, for their part, all students are expected to be honest in all of their academic endeavours and relationships with the University.” (Undergraduate Calendar 2013-2014, section 17.10, pages 56-62.)

All students enrolled at Concordia are expected to familiarize themselves with the contents of this Code. You are strongly encouraged to read the pertinent section in the 2013-2014 Concordia Undergraduate Calendar, and visit the following web address: <http://www.concordia.ca/programs-and-courses/academic-integrity/>, both of which provide useful information about proper academic conduct.

## **Policy on Copyright Compliance**

As in all Canadian universities, members of the Concordia community are users of copyrighted materials and, as such, are subject to copyright legislation. The necessity of complying with the Copyright Act is not open to question.

This Policy deals with the responsible use of copyrighted materials by members of the University. Its objective is to ensure copyright compliance in accordance with federal legislation, thus protecting the rights of creators and the interests of the University’s faculty members, staff and students.

This Policy applies to all members of the University (faculty, staff and students). Compliance with the Copyright Act and this Policy is the responsibility of each member of the University. Failure to comply with the Copyright Act is a violation of federal legislation. In addition to any action that may be taken by any copyright owner, its licensing agent or the police authorities, the University reserves the right to take disciplinary or other action against a member with respect to any breaches of this Policy.

## **Support Services**

Concordia University offers many on-campus support services that are available to students free of charge. The web link <http://www.concordia.ca/help4u> is a useful facility that guides students to a specific support service that can provide appropriate assistance.

## **Disclaimer**

The instructor reserves the right to change or update this outline, and any other course related materials, as required. The student will be informed in a timely manner through announcements during class and/or on FirstClass.