CS 335 - Winter 2017: Course Outline
Computational Methods in Business and Finance

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CS335 homepage: [http://www.student.cs.uwaterloo.ca/~cs335/](http://www.student.cs.uwaterloo.ca/~cs335/)

- **Course Description:** This course will cover topics such as: Introduction to MATLAB, lattice methods for pricing contingent claims, Monte Carlo techniques for pricing options and evaluating investment strategies, use of optimization software for portfolio optimization, solution of nonlinear equations (yield to maturity, implied volatility), floating point error propagation, and polynomial interpolation. Assignments will involve both theoretical and programming tasks using MATLAB.

- **Course Objectives:** This course will give students in the business related programs in the Mathematics Faculty an introduction to basic computational methods used in business and financial applications.

- **Tentative schedule:**

<table>
<thead>
<tr>
<th>Date</th>
<th>Instructor</th>
<th>Topic</th>
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<tbody>
<tr>
<td>Jan 3-6</td>
<td>YL</td>
<td>Introduction, asset price model</td>
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<tr>
<td>Jan 9-13</td>
<td>YL</td>
<td>Two state tree, no arbitrage, Matlab</td>
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<tr>
<td>Jan 16-20</td>
<td>YL</td>
<td>Random walk on a lattice, Brownian motion, Ito’s lemma</td>
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<td>Jan 23-27</td>
<td>YL</td>
<td>No arbitrage lattice, Dynamic programming I, Assignment 1 due</td>
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<tr>
<td>Jan 30-Feb 3</td>
<td>YL</td>
<td>Dynamic programming II, Black-Scholes equation</td>
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<tr>
<td>Feb 6-10</td>
<td>YL</td>
<td>BS implied volatility and dynamic hedging, Assignment 2 due</td>
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<tr>
<td>Feb 13-17</td>
<td>GL</td>
<td>Pitfalls of Computation, Fixed point iteration I</td>
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<td>Feb 20-24</td>
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<td>Reading week</td>
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<tr>
<td>Feb 27-Mar 3</td>
<td>GL</td>
<td>Fixed point iteration II (midterm Mar 1)</td>
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<tr>
<td>Mar 6-10</td>
<td>GL</td>
<td>Newton’s method and convergence</td>
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<td>Mar 13-17</td>
<td>GL</td>
<td>Stochastic differential equations, Monte Carlo Methods, Assignment 3 due</td>
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<td>Mar 20-24</td>
<td>GL</td>
<td>Monte Carlo Methods</td>
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<tr>
<td>Mar 27-31</td>
<td>YL</td>
<td>Simulation of Investment Strategies, VaR/CVaR</td>
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<tr>
<td>Apr 3</td>
<td>YL</td>
<td>Summary and Review, Assignment 4 due</td>
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- **Text and References:** The main source of information for the course is the material covered in the class lectures. Details of some of the more mathematical material is available in the form of typeset course notes, which are on sale in the DC copy center. The course notes consist of two parts: Financial and Business Applications (Part I) and Basic Numerical Methods (Part II). There is more material in these notes than we are going to cover in this class. The notes, however, are terse summaries of some of the topics covered in the lectures. It is therefore imperative that you attend the lectures and take notes.
• **Programming Languages**: MATLAB is to be used for the programming assignments. MATLAB tutorials can be found on the CS335 homepage. There are many sources of MATLAB information on the Web. There are also many reference books available. There will be one introductory tutorial on MATLAB in class Jan 11, 2017. The best way to learn MATLAB is to start the assignments early, and see the TAs if you have problems. You should start the assignments as soon as possible, well before the due date, to get familiar with MATLAB.

• **Assignments**: Assignments will be posted on the class homepage approximately two weeks before the due dates. Check regularly to make sure you are using the most recent version (corrections will be made to the web posting, if necessary). All assignments must be submitted in the designated assignment box prior to the specified due time.

Please make a copy of your assignment before you submit it. Although we try to make sure this does not happen, assignments occasionally go astray, or never get picked up after being marked. It is important to have copies of your assignment when you are preparing for your midterm and final examinations.

Students are welcome to discuss the assignment solutions with the instructor and TA after the assignments are returned. However, solutions are not posted on the web.

Assignments will be returned in class. Assignments not picked up at that time must be picked up from the TA’s office during TA office hours.

Unclaimed assignments will be retained for one month after term grades become official in quest. After that time, they will be destroyed in compliance with UW’s confidential shredding procedures (https://uwaterloo.ca/central-stores/confidential-shredding).

• **Late Policy**: Late assignments submitted within 24 hours of the due deadline will be marked at half credit. You may not hand in part of your assignment on time and part late; if this happens, the entire assignment will be marked as late. Assignments submitted more than 24 hours late will not be marked.

• **Assignment Help**: Students can discuss general concepts and problems with other individuals in class. However, the solution that you submit must be worked through by yourself and written in your own words.

For each assignment, TAs are assigned to handle email queries and office hours which will be posted on the class homepage. Students are encouraged to go to the office hours by the instructor and TA.

• **Marking**: The assignments will consist of programming problems and analytic work. Most of the marks for the programming problems will be given for the description of the algorithm and explanation of the results or output. Simply handing in “raw code” will get very few marks.

Assignment figures and graphs should be carefully thought out to present the data and conclusions in an effective and clear manner. Poor presentation of your work will result in a poor mark.

In all cases, we expect you to explain your algorithms, and describe what you see in detail. You should also submit hard copies of your code, along with documentation. MATLAB has good plotting functions. Create figures with MATLAB to include in your assignments.

• **Assignment/Midterm Marking Appeals**: If you feel your assignment/midterm was marked incorrectly, write an explanation of what you would like reviewed, attach this to your (marked) assignment/midterm, and hand this to the course instructor, who will pass this on the appropriate TA. Reviews of assignment/midterm marking must be submitted within one week from the time the assignments/midterm are returned in class.
• **Course Grade:** There will be four assignments, a midterm, and a final exam. Each assignment will count 8%, so a total of 32%. The midterm is worth 24%, and the final exam 44%. In order to pass the course, student must have a pass on the exam component. Thus you must obtain a mark of 34 (out of 68) on the total of the midterm and final marks in order to pass the course. If you obtain less than 34 out of 68 on the final examination and midterm marks, your final mark in the course will be your final examination and midterm mark.

If you are unable to write the midterm, due to legitimate reasons, then the final exam is weighted at 68% of the final mark. Please come and see the instructor if you cannot write the midterm.

• **Midterm:** The midterm will be 7-9:00pm March 1, 2017, Wednesday.

• **Final Exam:** Students are advised not to make any travel arrangements before the final exam times are posted. Note that in the event that the final exam is postponed, the final exam will be rescheduled for the day following the end of the regular exam schedule. Under no circumstances will alternate exams be scheduled for students who have made travel arrangements which conflict with the final exam.

Students must inform the Registrar’s Office if they have a conflict in the final exam schedule, by the date posted on the Registrar’s website. Note that there is a precise definition of conflict as defined by the Registrar’s Office. The course instructor will then be contacted by the Registrar’s Office to make alternate arrangements. Under no circumstances will the instructor make alternate arrangements for a final exam unless given instructions by the Registrar’s Office.

• **Plagiarism:** Plagiarism is representing the work of others as your own. Plagiarism on exams includes using unauthorized aids or communicating in any way with others during an examination. Plagiarism on assignments includes copying another student’s solution and submitting it as your own, allowing another student to copy your solution, collaborating excessively with another student, or obtaining solutions from any other source. See the section on Discipline below for typical penalties.

All academic offenses are reported to the Associate Dean for Undergraduate Studies and are recorded in the student’s file. Subsequent academic offenses in the same course or in other courses will lead to more severe penalties, up to and including suspension and expulsion.

We encourage you to discuss general concepts and problems with classmates, tutors, TAs, and instructors. However, the solution that you submit must be worked through by yourself and written in your own words. It is not acceptable to work on an assignment with somebody else and write it up individually. The only exceptions are assignments or projects which the instructor designates as group activities. When discussing course matters, do not take notes, and do not look at another person’s partial solutions, or show them yours.

• **Avoiding Academic Offenses:** Most students are unaware of the line between acceptable and unacceptable academic behaviour, especially when discussing assignments with classmates and using the work of other students. For information on commonly misunderstood academic offenses and how to avoid them, students should refer to the Faculty of Mathematics Cheating and Student Academic Discipline Policy (http://www.math.uwaterloo.ca/navigation/Current/cheating_policy.shtml).

• **Academic Integrity:** In order to maintain a culture of academic integrity, members of the University of Waterloo community are expected to promote honesty, trust, fairness, respect and responsibility (https://uwaterloo.ca/academic-integrity/).

• **Grievance:** A student who believes that a decision affecting some aspect of his/her university life has been unfair or unreasonable may have grounds for initiating a grievance. Read Policy 70, Student Petitions and Grievances, Section 4 (https://uwaterloo.ca/secretariat/policies-procedures-guidelines/).
• **Discipline**: A student is expected to know what constitutes academic integrity to avoid committing academic offenses, and to take responsibility for his/her actions. A student who is unsure whether an action constitutes an offense, or who needs help in learning how to avoid offenses (e.g., plagiarism, cheating) or about “rules” for group work/ collaboration should seek guidance from the course instructor, academic advisor, or the undergraduate Associate Dean. For information on categories of offenses and types of penalties, students should refer to Policy 71, *Student Discipline* ([https://uwaterloo.ca/secretariat/policies-procedures-guidelines/policy-71](https://uwaterloo.ca/secretariat/policies-procedures-guidelines/policy-71)). For typical penalties, check *Guidelines for the Assessment of Penalties* ([https://uwaterloo.ca/secretariat/policies-procedures-guidelines/guidelines/assessment-penalties](https://uwaterloo.ca/secretariat/policies-procedures-guidelines/guidelines/assessment-penalties)).

• **Appeals**: A decision made or penalty imposed under Policy 70, *Student Petitions and Grievances* (other than a petition), or Policy 71, *Student Discipline*, may be appealed if there is a ground. A student who believes he/she has a ground for an appeal should refer to Policy 72, *Student Appeals* ([https://uwaterloo.ca/secretariat/policies-procedures-guidelines/policy-72](https://uwaterloo.ca/secretariat/policies-procedures-guidelines/policy-72)).

• **Note for Students with Disabilities**: The Office for Persons with Disabilities (OPD), located in Needles Hall, Room 1132, collaborates with all academic departments to arrange appropriate accommodations for students with disabilities without compromising the academic integrity of the curriculum. If you require academic accommodations to lessen the impact of your disability, please register with the OPD at the beginning of each academic term.

• **Intellectual Property**: Students should be aware that this course contains the intellectual property of their instructor, TA, and/or the University of Waterloo. Intellectual property includes items such as: Lecture content, spoken and written (and any audio/video recording thereof); Lecture handouts, presentations, and other materials prepared for the course (e.g., PowerPoint slides); Questions or solution sets from various types of assessments (e.g., assignments, quizzes, tests, final exams); and Work protected by copyright (e.g., any work authored by the instructor or TA or used by the instructor or TA with permission of the copyright owner).

Course materials and the intellectual property contained therein, are used to enhance a student's educational experience. However, sharing this intellectual property without the intellectual property owners permission is a violation of intellectual property rights. For this reason, it is necessary to ask the instructor, TA and/or the University of Waterloo for permission before uploading and sharing the intellectual property of others online (e.g., to an online repository). Permission from an instructor, TA or the University is also necessary before sharing the intellectual property of others from completed courses with students taking the same/similar courses in subsequent terms/years. In many cases, instructors might be happy to allow distribution of certain materials. However, doing so without expressed permission is considered a violation of intellectual property rights.