Financial Economics

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Text and materials

Required textbook: Bailey, R., Economics of Financial Markets, Cambridge University Press, 2005.

Reference books:

Bodie, Z., A. Kane, A. Marcus, Investments, McGraw-Hill Education, 8th edition, 2009.

Elton, E., M. Gruber, S. Brown and W. Goetzmann, Modern Portfolio Theory and Investment Analysis，John Wiley, 7th, 2007.

Assessment

30% Homework; 70% Final exam

Course Outline

1. Expected Utility and Measures of RA
.Expected Utility Function
.Risk Aversion and the Measure of RA

2. Mean-S.D. Analysis
.Optimal Choice Problem
.Efficient Frontier

3. CAPM
.Capital Asset Pricing Model
.Market Portfolio

4. Arbitrage and Asset Pricing
.Arbitrage
.No Arbitrage Theorem
.No Arbitrage and State Prices
.Risk Neutral Probabilities

5. Factor Model and APT
.Single Factor Model
.Multi Factor Model
.Arbitrage Pricing Theory

6. Empirical Evidence
.Empirical Examination of CAPM
.Fama-French Three Factor Model
.Interemporal Choice and Equity Premium Puzzle

7.NPV Approach
.Discounted Cash Flow Approach
.Gordon Discounted Model

8. Forward and Futrue
.Forward and Future
.Forward Price and Future Price
.Application in Risk Management

9. Option
.Binomial Option Pricing Model

10. Swap
.Mechanics of interest rate swaps
.Valuation of interest rate swaps
.Valuation of currency swaps