

Financial Economics (Session E)

2015 Spring – Module 3

Tuesday & Friday 8:30-10:20AM in Room 229

Instructor: Yilin Zhang

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Office Hours: TBA

Course Website: <http://cms.phbs.pku.edu.cn/claroline/course/index.php?cid=FIN520SP>

TA: Min Liu (刘敏; liumin@sz.pku.edu.cn)

Course Description

Prerequisite: Econ510 (Microeconomics) or equivalent. Besides, a certain comfort with mathematical reasoning and familiarity with calculus, matrix algebra and probability theory will be necessary.

This course is intended to provide master-level students with an understanding of the basic concepts and tools in financial theory and to build a foundation for the study of higher-level courses in asset pricing, portfolio theory and derivatives.

The outline and the class *hours*¹ are:

- Introduction and quick math review (2hrs)
- Expected utility theory: Choice under uncertainty, risk aversion (4hrs)
- Portfolio selection and the mean-variance portfolio theory (4hrs)
- Market equilibrium and the linear factor models (CAPM and APT) (4hrs)
- Efficient market hypothesis (2hrs)
- Arrow-Debreu securities and pricing under complete markets (4hrs)
- Static and dynamic (multi-period) consumption-saving decisions (4hrs)
- Introduction to derivatives: Forward & futures, option basics and pricing (6hrs)
- Continuous-time *finance*² (2hrs)

1: Subject to change according to the actual progress

2: Will cover only if we have enough time.

Readings

The lecture notes will be pretty much self-contained for the course. However, the following text is recommended for most of the chapters.

- George Pennacchi, *Theory of Asset Pricing*, Prentice Hall

Other useful reference: Depending on the topic to be discussed, one or more of the texts below may be recommended for supplementary reading or reference:

- Zvi Bodie, Alex Kane & Alan Marcus, *Investments (9th ed)*, McGraw-Hill/Irwin
- Jiang Wang, *Financial Economics* (in Chinese), Renmin Publishing, 2006
- Jean-Pierre Danthine & John B. Donaldson, *Intermediate Financial Theory (2nd or 3rd ed)*, Academic Press

Relevant papers or other materials will be mentioned in the lecture notes or announced on the course website.

Grading

The overall grade for the course will be based on the following:

- 30% Midterm (in-class exam in the fifth week, details TBA)
- 40% Final (May, 5th, Tuesday, 9:00-11:00AM)
- 20% Homework
- 10% Class Participation

All the exams are closed-book exams. The final exam will be comprehensive and will cover both materials before and after the midterm. If you expect any conflicts with the exam date, please let me know as early as possible before the exam so we can make arrangement. If you miss the midterm exam for a legitimate reason, the weight of your midterm will go to the final exam, i.e. the final will count 70%.

You can work in groups on the homeworks but you must write up and submit your individual copy of the homework. Any late submission within 24hrs of the deadline will receive no more than 80% of the credits for the homework; any late submission beyond 24hrs of the deadline will not be accepted unless due to serious illness (in which case doctoral documents are required) or family emergency.

Class participation will be based on attendance as well as questions and comments in class.

Class Conducts

Please come to class on time. If you are late for some reason, please enter the class and take a seat without disturbing the class. Also, please do not forget to turn off your cell phones and other noisy devices.

Course Website

The course website is: <http://cms.phbs.pku.edu.cn/claroline/course/index.php?cid=FIN520SP>

Instruction: Register and login into CMS website; then search for the course “Fin520sp” or “Financial Economics_SessionE” under my name and enroll with key “*2015fin520sp*”.

All the announcements and lecture notes will be posted on the website so please check it as frequently as possible.

Contact

You are strongly encouraged to ask questions during the lectures and office hours. However if you need to reach me outside the lectures or office hours with course-related questions or comments, you may email me at ylzhang@phbs.pku.edu.cn to make an appointment. Please include “**Fin520**” in the subject field to help me identify the emails.

Disabilities

To ensure that disability-related concerns are properly addressed from the beginning, students with disabilities who require reasonable accommodations to participate in this class are asked to see me as soon as possible.

Academic Integrity

Academic integrity is a cornerstone of the intellectual life of any university. Violations of academic integrity will be considered a serious offense. Any student who is judged to have violated academic integrity in this course will be subject to the penalties including, among others, failure for the course. Copying results on an exam, plagiarizing homework, or unauthorized use of materials from this course in previous years constitutes a violation of academic integrity.