

ECON569

Financial Economics

Module 3, 2015-2016

Course Information

Instructor: Yilin Zhang

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Office Hour: Wednesday, 3:30-5:30PM or by appointment

Teaching Assistant: Tong Li

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TA office hour: TBA

Classes:

Lectures: Monday & Thursday 10:30-12:20

Venue: PHBS Building, Room 319

Course Website:

The course website is: http://cms.phbs.pku.edu.cn/claroline/course/index.php?cid=FIN520_001

Instruction:

Register and login into CMS website; then search for the course “[2015Fall Financial Economics](#)” under my name and enroll with key “*15fall_Fin520*”.

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

1. Course Description

1.1 Context

Course overview:

This course is intended to provide master-level students with an understanding of the basic concepts and techniques in financial theory and to build a foundation for the study of higher-level courses in asset pricing, portfolio theory and derivatives. Students will be introduced the fundamental theories in finance and focus on how to understand, interpret, and apply these theories. The course is *theoretical* in nature and hence it is essential that students have sufficient knowledge in economics, mathematics and statistics (see prerequisites for details) before taking this course.

Prerequisites:

Econ510 (Microeconomics) or equivalent is required before registering for this course.

Besides, a certain comfort with mathematical reasoning and familiarity with calculus, matrix algebra and probability theory will be *crucial*.

An introductory course in econometrics is also strongly recommended.

Topics and **outline**¹ :

Week 1 Lecture 1 Introduction and quick math review

Week 2	Lecture 2-3	Expected utility theory: Choice under uncertainty risk aversion
Week 3	Lecture 4-5	Portfolio selection and the mean-variance portfolio theory
Week 4	Lecture 6-7	Market equilibrium and the linear factor models (CAPM and APT)
Week 5	Lecture 9	Efficient market hypothesis
Week 6	Lecture 10-11	Arrow-Debreu securities and pricing under complete markets
Week 7	Lecture 12-13	Static and dynamic (multi-period) consumption-saving decisions
Week 8	Lecture 14-16	Introduction to derivatives: Forward & futures option basics and pricing
Week 9	Lecture 17	Introduction to continuous-time finance ²

1: Subject to change according to the actual progress

2: Will cover only if we have enough time

3: Midterm exam will be in week 5.

4: **Class Reschedule:** Due to a conference in Jan.2016, the two lectures on Jan.4 (Monday) and Jan.7 (Thursday) will be rescheduled to Dec.23 (Wednesday) 3:30-5:30pm and Jan.9 (Saturday) 2-3:50pm, respectively.

1.2 Textbooks and Reading Materials

The lecture notes will be pretty much self-contained for the course. However, the following text is strongly recommended if you need further, more detailed explanations.

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

Other useful reference:

You can use the following books for supplementary reading and reference:

- Zvi Bodie, Alex Kane & Alan Marcus, *Investments (9th edition)*, McGraw-Hill/Irwin

- Jiang Wang, *Financial Economics* (in Chinese), Renmin Publishing, 2006

- Frank Fabozzi et al., "Foundations of Financial Markets and Institutions" (*4th edition*), Pearson Education

Relevant papers and other reading materials will be mentioned in the lecture notes and be posted on the course website.

2. Learning Outcomes

2.1 Intended Learning Outcomes

Learning Goals	Objectives	Assessment
1. Our graduates will be effective communicators.	1.1. Our students will produce quality business and research-oriented documents.	
	1.2. Students are able to professionally present their ideas and also logically explain and defend their argument.	
2. Our graduates will be skilled in team work and leadership.	2.1. Students will be able to lead and participate in group for projects, discussion, and presentation.	
	2.2. Students will be able to apply leadership theories and related skills.	
3. Our graduates will be trained in ethics.	3.1. In a case setting, students will use appropriate techniques to analyze business problems and identify the ethical aspects, provide a solution and defend it.	
	3.2. Our students will practice ethics in the duration of the program.	
4. Our graduates will have a global perspective.	4.1. Students will have an international exposure.	
5. Our graduates will be skilled in problem-solving and critical thinking.	5.1. Our students will have a good understanding of fundamental theories in their fields.	√
	5.2. Our students will be prepared to face problems in	

	various business settings and find solutions.	
	5.3. Our students will demonstrate competency in critical thinking.	√

2.2 Course specific objectives

After successful completion of the course students should have a good understanding of the fundamentals of financial economic theories. Students should be able to use the principles and methods learned from this course to analyze financial phenomena and to solve problems when facing various financial situations.

2.3 Assessment/Grading Details

Assessment Components	Weights
Midterm (in-class exam in the fifth week, details TBA)	30%
Final (Jan.14th, Thursday, 9:00-11:00AM)	40%
Homework	20%
Participation	10%
<i>Total</i>	<i>100%</i>

Exams:

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 (relevant documents needs to be provided), the weight of your midterm will go to the final exam, i.e. the final will count 70%.

Homeworks:

There will be 5 homeworks. 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.

Participation:

Participation score will be based on attendance to the lectures and the TA sessions, as well as the active involvement in the class discussions etc..

Full attendance is *strongly recommended* as the materials are cumulative. You need to get my pre-approval if you are absent from any class.

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.

Office Hours:

My office hours are on Wednesday afternoon from 3:30-5:30pm or by appointment.

As per the school's new policy, the TA will have two times of office hours in room 213/214 each week and each time will be two hours.

Please DO make use of these office hours to clarify any course-related question you may have.

Email Policy:

You are strongly encouraged to ask questions during the lectures and the 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.

2.4 Academic Honesty and Plagiarism

It is important for a student's effort and credit to be recognized through class assessment. Credits earned for a student work due to efforts done by others are clearly unfair. Deliberate dishonesty is considered academic misconducts, which include plagiarism; cheating on assignments or examinations; engaging in unauthorized collaboration on academic

work; taking, acquiring, or using test materials without faculty permission; submitting false or incomplete records of academic achievement; acting alone or in cooperation with another to falsify records or to obtain dishonestly grades, honors, awards, or professional endorsement; or altering, forging, or misusing a University academic record; or fabricating or falsifying of data, research procedures, or data analysis.

All assessments are subject to academic misconduct check. Misconduct check may include reproducing the assessment, providing a copy to another member of faculty, and/or communicate a copy of this assignment to the PHBS Discipline Committee. A suspected plagiarized document/assignment submitted to a plagiarism checking service may be kept in its database for future reference purpose.

Where violation is suspected, penalties will be implemented. The penalties for academic misconduct may include: deduction of honour points, a mark of zero on the assessment, a fail grade for the whole course, and reference of the matter to the Peking University Registrar.

For more information of plagiarism, please refer to *PHBS Student Handbook*.

3. Topics, Teaching and Assessment Schedule

4. Miscellaneous

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.