

Foundations for Financial Economics (Fall 2021)

Instructor: Shuo Liu

Course Description: The aim of this course is to provide the fundamental framework and classical topics for the study of modern financial economics. In this course, we will focus on individual's consumption and portfolio decisions under uncertainty, and their implications for the valuation of securities.

Contents of the course:

1. Single-period Portfolio Choice and Asset Pricing

- Expected Utility and Risk Aversion
- Mean-Variance Analysis
- CAPM, Arbitrage, and Linear Factor Models
- Consumption-Savings Decisions and State Pricing

2. Multiperiod Consumption, Portfolio Choice, and Asset Pricing

- A Multiperiod Discrete-time Model of Consumption and Portfolio Choice
- Multiperiod Market Equilibrium

3. Basics of Derivative Pricing

Class Time: Wednesday 7:20pm-9:45pm

Reference books:

1. George Pennacchi, Theory of Asset Pricing, 2008, Pearson;

2. Chi-fu Huang, Robert H.Litzenberger, Foundations for Financial Economics, 1988;
3. LeRoy, Stephen F., and Jan Werner, Principles of Financial Economics, 2001, Cambridge University Press;
4. Claus Munk, Financial Asset Pricing Theory, 2013;
5. Jean-Pierre Danthine and John B. Donaldson, Intermediate Financial Theory, 2nd Edition, 2005, Elsevier;
6. John Cochrane: Asset Pricing (Revised), 2005, Princeton University Press;
7. Jiang Wang, Financial Economics, 2005, (In Chinese);
8. Fengming Song, Foundations for Financial Economics, 2006, (In Chinese).

Grading:

- biweekly assignments (30%) + class participation (10%) + final exam (60%)
- Assignment rules:
 - Late submission will not be accepted.
 - Please remember to obey the rules of academic integrity. You are encouraged to discuss the problems with fellow students, but copied work is not acceptable and will result in zero credit. It is possible to find solutions to some of these exercises online. However, the purpose of assignment is to give you the opportunity to develop problem solving skills which you will need in the final exam. Hence it is not smart to take shortcuts to secure the few points without thinking about the problems carefully.