Advanced Financial Economics

The objective of this course is to give the student an understanding of the operation of financial markets and pricing of financial assets. In the first part of the course basic principles of decision making under uncertainty will be developed. These principles will then be applied to portfolio selection problem in financial asset markets. Models of financial asset markets and their implications for valuation of stocks, bonds, options and derivative assets will be discussed. A topic of special interest will be asset price bubbles. The role of information in financial markets and issues of market efficiency will be explored as well.

Current events in financial markets will be regularly discussed in class.

Course Textbook:

Bailey, Roy E., The Economics of Financial Markets, Cambridge University Press, 2005.

Course Outline:

- 1. Financial Markets: Basic Concepts and Ideas Bailey, Chapters 1-3
- 2. Uncertainty and Portfolio Choice Bailey, Chapter 4
- 3. Arbitrage and Valuation Bailey, Chapter 7*
- 4. Mean-Variance Analysis and the CAPM Bailey, Chapters 4, 5, & 6
- 5. Factor Models of Asset Pricing Bailey, Chapter 8
- 6. Discounted Present Value Rule and Financial Bubbles Bailey, Chapter 10
- 7. Equity Premium Puzzle Bailey, Chapter 11
- 8. Market Speculation and Bubbles Class Notes, articles
- 9. Information in Financial Markets Bailey, Chapter 3^{*}, articles

- 10. Bond Markets and Term Structure of Interest Rates Bailey, Chapters 12 and 13, Hull, Chapter 4
- Futures and Options Bailey, Chapters 14-20; Hull, Chapters 3, 6-7

*indicates where the order of topics differs from that of textbook chapters.

Supplementary Course Material:

- Regular reading of the business press (*Wall Street Journal, Financial Times, The Economist, New York Times*) is strongly recommended.
- Articles: Each chapter of Bailey's textbook has a list of references. Other references will be announced in class.
- Nobel Prize Committee 2013, "Understanding Asset Prices".
- Hull, John *Options, Futures and Other Derivatives* Pearson Education, 10th (or earlier) Edition, (useful for the 2nd part of the course).

Exams and Homework:

There will be a midterm, a final exam, and two 30-minute long quizzes. The midterm will be on **Thursday, February 29**. The final will be on Wednesday, May 8, 8:00 a.m. to 10:00 a.m. Homework assignments will be regularly given.

In-class Presentation:

Students are required to make a presentation in class on a topic related to some recent event in financial markets and based on a journal article. Presentations by teams of two will be 40-45 minute long, and should be in power point or a similar presentation software.

Grade Determination:

Problem Sets: 15% In-class Presentation: 10% Midterm Exam: 25% Final Exam: 35% Quizzes: 15%

Office Hours, Course Website, TA:

Professor's office hours:	Monday, 1:30-3:00 j Email: jwerner@um	p.m., 4-139 Hanson Hall n.edu
Course Website:	Canvas	
Teaching Assistant:	Leo Stanek TA's office hours: 7	Email: stane060@umn.edu TBA

Incomplete Grades, Make-up Exams, and Scholastic Dishonesty:

See Department of Economics Procedure and Policies 2023-2024.

Disabilities:

Students with disabilities should register with the Disability Resource Center and inform the instructor in the first week of classes about any special arrangement. For more information, see https://disability.umn.edu