

Financial Economics

The course will focus on dynamic models of asset markets and, in particular, on the possibility of asset price bubbles and speculative trade. We will explore implications of risk and ambiguity on prices and allocations in asset markets. We will also explore implications of heterogeneous beliefs in asset markets, in particular, beliefs arising under Bayesian learning in well-specified and misspecified models. The role of asymmetric information in markets with competitive and strategic investors will be discussed, too. Lastly, an introduction to modeling of over-the-counter markets will be given.

Main readings for the course will be journal articles and working papers. There will be handouts for the first part of the course available to participants.

Course Outline:

1. Dynamic Asset Markets: Debt Constraints, Equilibrium, and Asset Price Bubbles.
2. Recursive Preferences under Risk and Ambiguity.
3. Risk Sharing in Dynamic Economies.
4. Heterogeneous Beliefs, Speculation, and Bayesian Learning.
5. Asymmetric Information and Strategic Trading.
6. Over-the-Counter Markets.

Textbook for part 1: *Principles of Financial Economics* by Stephen F. LeRoy and Jan Werner, Cambridge University Press, **2nd Edition**, 2014.

Course Readings: A list of articles and books will be announced in class.

Homeworks, Exams, Presentations and Grades:

There will be problem sets and a final exam. Students are required to make a presentation in class of a research article from the reading list, or per approval. Students who decide to write a paper for course credit should discuss the topic of their paper with me as soon as possible.

Office Hours: Mondays, 1:00-2:30 p.m., in person in 4-139 Hanson Hall.

Course Website: Canvas