Special Topics on Financial Economics

Lectured by Professor Len-Kuo Hu

Overview: This course is designed for the graduate students with a good quantitative background and a preliminary education in finance and accounting. It introduces students to the precise modeling of many financial concepts underscoring the behavior of our complicated capital markets. Throughout the course the emphasis is on the notion of competitive financial equilibrium and how the concepts of uncertainty and information are dealt with in this financial framework. The implication of asymmetric information on the emergence of banks and the recurrence of financial crisis will also be addressed in the class. Finally this course will briefly survey the recent development in behavioral finance.

Textbooks:

Reference books:

Course Grading:
Class Participation: 10%
Homework: 20%
Mid-term Exam: 35%
Final Exam: 35%

Outline of the Course:
Drawing upon the Arrow-Debreu contingent-claim model, we are able to price such risky securities as stocks, bonds, options, futures and other derivatives once the state prices are determined in a complete market. In addition, the following concepts will be discussed in depth:

- Modern Portfolio Theory
- Capital Asset Pricing Model (CAPM) and Consumption-based CAPM (CCAPM)
- Martingale Measure and Risk-Neutral Pricing
- Market Microstructure and information Asymmetry
- Microeconomics of Banking
- Behavioral Corporate Finance