

FINANCIAL ECONOMICS

Spring 2016

Department of Economics, University of Florida

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Required Textbook: Brealey, Richard A., Stewart C. Myers and Franklin Allen, Principles of Corporate Finance, Irwin McGraw-Hill, Eleventh Edition, 2008 (Other editions may be equally good).

Additional Reading Materials (Not required):

B. Malkiel, A Random Walk Down Wall Street, 2011. A very popular introduction to investment. It is both easy to read and provides practice guidance and suggestions on some key problems in finance.

1. COURSE REQUIREMENTS

Course requirements include regular attendance and participation in class (which requires having read the text book prior to coming to class), five to six problem sets, and the midterm and final exams. You are encouraged to work together on problem sets but you need to write them on you own (identical copies will be giving 0 credits). Late problem sets are not acceptable. The following weighting scheme will be used to determine each students course grade:

5% Class Participation and Attendance

25% Problem Sets

25% Midterm Exam

45% Final Exam

2. ADDITIONAL ACTIVITIES

To obtain some practical sense on the materials of this course, some additional activities will be conducted during the course, which may include:

1. A virtual contest of investment. Top winners (or winning groups) will be given additional credits for the course. Collaboration and group work are encouraged.
2. Working with real data using software such as R. This may help to learn skills that are useful in the financial industry. It may be done in either problem sets or recitations.

3. OUTLINE OF THE COURSE

The following schedule is preliminary. Some materials may take longer or shorter to cover. It may be further refined before the semester begins. Each item listed below will take one class meeting.

1. Introduction to Financial Economics
2. NPV 1: What is the present value of a financial asset?
3. NPV 2: Yield and internal rate of return
4. Fixed Income Securities 1: Bond Prices and Yields
5. Fixed Income Securities 2: Term Structure of Interest Rates
6. Common Stocks 1: Common stock - A view from Corporate Finance
7. Common Stocks 2: Arbitrage Asset pricing theory
8. Common Stocks 3: State spaces, state price density.
9. Introduction to Trading Strategies
10. Forward and Futures 1: What are Forward and Futures Contracts?
11. Forward and Futures 2: How to price Forward and Futures: non-arbitrage principle
11. Options 1: Option contract
12. Options 2: Pricing models for Options: The Black-Scholes model
13. Mid-term
14. Introduction to Risk and Return

15. Portfolios 1: Diversification of Assets
16. Portfolios 2: Sharp Ratio and MV-Efficiency Frontier: risk and return trade-off
17. Capital Asset Pricing Models 1 : One-Factor model
18. Capital Asset Pricing Models 2 : Capital Market Line, Mean-Variance Theory
19. Capital Asset Pricing Models 3 : Consumption-CAPM
20. Market Efficiency: Implications and tests
21. Asymmetric information.
22. Heterogeneous belief.
23. Anomalies in the financial Market and the Efficiency Hypothesis
24. Systemic Risk and Financial Crisis
25. Review Session
26. Final Exam