

# GS/ECON 5520 M

## Economics of Financial Markets

### INSTRUCTOR

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Office hours: after class and by appointment

### COURSE WEBPAGE

<http://asemenov.info.yorku.ca/courses/>

### COURSE DESCRIPTION

The objective of the course is to undertake a rigorous study of the theoretical foundations of modern financial economics. The course covers the central themes of modern finance including market efficiency, individual investment decisions under uncertainty, mean-variance theory, capital market equilibrium and asset valuation, arbitrage pricing theory, and pricing derivative securities. Theoretical analysis of the problems is combined with empirical exercises based on the use of real financial data.

### CLASS TIME AND LOCATION

W 14:30 – 17:30, VC 107A

### REQUIRED TEXTBOOKS

- [CLM] Campbell, J.Y., Lo A.W., and A.C. MacKinlay (1997), *The Econometrics of Financial Markets*, Princeton, NJ: Princeton University Press.
- [DD] Danthine, J.-P., and J. B. Donaldson (2005), *Intermediate Financial Theory*, 2nd ed., Amsterdam; Boston, Mass.: Elsevier.
- [H] Hull, J. C. (2009), *Options, Futures, and Other Derivatives*, 7th ed., Upper Saddle River, N.J.: Pearson, Prentice Hall.

### RECOMMENDED TEXTBOOKS

- [C] Cochrane, J.H. (2005), *Asset Pricing (Revised)*, Princeton University Press.

### TOPICS TO BE COVERED

- The Concept of Stochastic Dominance (DD, Chapter 4)
- Portfolio Selection (DD, Chapters 5, 6)
- Market Efficiency (CLM, Chapters 1, 2; C, Chapter 20)
- The Capital Asset Pricing Model (CAPM) (DD, Chapter 7; CLM, Chapter 5)
- Multifactor Asset Pricing Models (CLM, Chapter 6; C, Chapters 9, 20)
- The Arbitrage Pricing Theory (APT) (DD, Chapter 13)
- The Consumption Capital Asset Pricing Model (CCAPM) (DD, Chapter 9; CLM, Chapter 8)
- Derivative Pricing Models (H, Chapters 2, 5, 9)

### EVALUATION

The final grade for the course will be based on the following items weighted as indicated:

- Mid-term exam – 40% (February 15, in class)
- Mid-term exam – 40% (TBA, in class)
- Final exam – 20% (April 5, in class)
- Bonus Assignment – 15% (due by TBA)

**Assignment Submission.** The assignment is not mandatory. Students must do the assigned exercises individually. The assignment is due in class on the day noted. Late assignments will not be accepted.

**Missed exams.** There will be no make-up mid-term exam. The students missed the mid-term exam must provide the instructor with appropriate documentation verifying the circumstances for the missed exam. For the students missed the mid-term exam and provided appropriate documentation within two weeks following the examination date, the weight of the mid-term exam will be transferred to the final exam. The department's guidelines on deferred standing are available at [http://dept.econ.yorku.ca/undergraduate/Deferred\\_Standing1.pdf](http://dept.econ.yorku.ca/undergraduate/Deferred_Standing1.pdf)

## **ATTENDANCE POLICY**

The students missed one or more classes must provide the instructor with appropriate documentation verifying the circumstances for the missed class. In case of failing to provide appropriate documentation for the missed class within two weeks following the class date, the student's final mark for the course will be lowered by 5% for each of such missed classes.

## **APPROPRIATE DOCUMENTATION**

Exams/classes missed due to *medical circumstances* must be supported by an attending physician's statement or a statement by a psychologist or a counsellor. The physician's statement must include the following: (1) full name, mailing address, telephone number of the physician, (2) state the nature of the illness and its duration (i.e., specific dates covered), and (3) an indication of whether the illness and/or medication prescribed would have SERIOUSLY affected the student's ability to study and perform over the period in question. The physician's office may be contacted to verify that the statement was actually completed by the physician. Exams/classes missed due to *non-medical circumstances* must be supported by appropriate documentation, i.e., death certificates, obituary notice, automobile accident reports, airline/bus ticket receipt for emergency travel (with the date of booking on the ticket), etc. Airline/train/bus ticket/receipts for emergency travel must indicate destination, departure, and return dates. Having to work at the time of an exam/class or non-emergency travel are not considered valid excuses for missing the exam/class.

## **E-MAIL POLICY**

E-mail should not be used to receive private tutorial. If your question requires writing formulas, then I encourage you to see me during my office hours. When sending an e-mail, indicate the course number on the subject line.

## **IMPORTANT INFORMATION**

All students are expected to familiarize themselves with the following information, available at <http://www.yorku.ca/secretariat/policies/index-policies.html/>:

- York's Academic Honesty Policy and Procedures/Academic Integrity Website
- Ethics Review Process for research involving human participants
- Course requirement accommodation for students with disabilities, including physical, medical, systemic, learning and psychiatric disabilities
- Student Conduct Standards
- Religious Observance Accommodation