Lingnan University
Department of Economics

Course Title	:	Financial Economics
Course Code	:	ECO4323
Recommended Study Year	:	3 and 4
No. of Credits/Term	:	3
Mode of Tuition	:	Sectional-based
Class Contact Hours	:	3 hours per week
Category in Major Prog.	:	Major in Economics (Elective Course), Major in GEB (Required Course)
Discipline	:	Economics
Prerequisite(s)	:	(a) ECO2101 Introduction to Economics, or (b) ECO2104 Introduction to Microeconomics and ECO2105 Introduction to Macroeconomics, or (c) BUS2105 Microeconomics for Business
Co-requisite(s)	:	N/A
Exclusion(s)	:	N/A
Exemption Requirement(s)	:	N/A

Brief Course Description

ECO4323 is an undergraduate-level course on financial economics, with a particular emphasis on asset pricing and its connection to the macroeconomy. It begins by discussing the demand for financial assets, i.e., how people make investment decisions in risky environments. The course then moves on to standard equilibrium asset pricing theories, including the capital asset pricing model (CAPM), consumption CAPM, and Arrow-Debreu pricing theory. With these preparations, the course ends with a brief introduction to the application of asset pricing theories in the real economy.

Aims

The aim of the course is to present both theoretical issues and material of practical value in financial economics and to develop students' analytical skills and economic sense of the financial markets through lectures, in-class discussions, quizzes, tests, and a take-home project.

Learning Outcomes (LOs)

Upon completion of this course, successful students should be able to:

1. Demonstrate a solid understanding of how financial markets function; identify conflicts of interest and agency problems in financial markets and institutions;
2. Assess decision making under uncertainty; discuss trade-off between risk and return; construct optimal portfolios;
3. Exhibit an understanding of important theories in financial economics;
4. Evaluate and apply different models and strategies of financial theories to your field.

Indicative Contents

I. Financial market, instruments, and institutions
II. Portfolio theory
III. Theory [Capital Asset Pricing Model (CAPM), Consumption CAMP, and Arrow-Debreu pricing] and evidence of capital market equilibrium
IV. Finance and the macroeconomy

Teaching Method

Lectures are supported by quizzes, tests, and assignments. Students are expected to receive rigorous training and actively participate in class discussions. Quizzes and tests are designed to encourage continuous learning. The facilitated discussion will stimulate students to give critical responses to the readings and the recent trends or events in financial markets to enhance their critical and analytical thinking.

Measurement of Learning Outcomes

1. Students will solve problems in quizzes and assignments to sharpen their analytical skills. Students are also encouraged to discuss the recent trends or events in financial markets (e.g., financial crisis, fraud, IPOs, etc.). Extra points and bonuses will be given to students who demonstrate analytical and critical thinking. (LOs 1-4)
2. Two mid-term tests are designed to assess students' capability to apply financial concepts and models discussed in class to real financial and economic problems. (LOs 1-3)

Assessment

Continuous assessment	:	100% (quizzes -15%, first mid-term test - 35%,

second mid-term test - 35%,
project report - 15%)

Required/Essential Reading

Bodie Zvi, Kane Alex, and Alan J. Marcus, *Investments,* 8th Edition, McGraw-Hill, 2008.
Danthine Jean-Pierre and Donaldson B. John, Intermediate Financial Theory, 3rd Edition, Academic Press, 2014

Recommended/Supplementary Readings

Arthur J. Keown, John D. Martin, J. William Petty and David F. Scott, JR. *Financial Management*, 10th Edition, Pearson, 2005.

Attanasio, Orazio, James Banks and Sarah Tanner, "Asset Holding and Consumption Volatility", *Journal of Political Economy*, 110 (4):771-792, 2001.

Bodie, Z, A Kane, and A J Marcus, *Investments*, 5th Edition, Boston: McGraw-Hill, 2005.

Bodie, Z and R C Merton, *Finance,* New Jersey: Prentice Hall, 2000.

Brav, Alon, Christopher Geczy and George Constantinides, *Asset Pricing with Heterogeneous Consumers and Limited Participation: Empirical Evidence*, NBER Working Paper No 7406, 2001.

Dixit, A K, *Optimization in Economic Theory*, Oxford: Oxford University Press, 1990.

Fry, M J, *Money, Interest, and Banking in Economic Development*, 2nd Edition, Baltimore: Johns Hopkins University Press, 1995.

Hallwood, C. Paul and Ronald MacDonald, *International Money and Finance*, 3rd Edition, Oxford: Blackwell Publishers, 2000.

Hirshleifer, J and J G Riley, *The Analytics of Uncertainty and Information*, Cambridge: Cambridge University Press, 1992.

Jacobs, Kris, "Incomplete Markets and Security Prices: Do Asset-Pricing Puzzles Result from Aggregation Problems?" *Journal of Finance*, 54 (1): 123-63, 1999.

Ma, Yue and S K Tsang, "Do China and Hong Kong Constitute an Optimum Currency Area?" *Centre for Asian Pacific Studies (CAPS) Working Paper* No.130 (14/02), Hong Kong: Lingnan University, 2002.

Mankiw, Gregory and Stephen Zeldes, "The Consumption of Stockholders and Non-Stockholder", *Journal of Financial Economics*, 29: 97-112, 1991.

Mishkin, F S, *Financial Markets and Institutions*, 5th Edition, Boston: Addison Wesley, 2006.

Mundell, R.A., "The Theory of Optimum Currency Areas", *American Economic Review,* 51: 657-65, 1961.

Obstfeld, Maurice and Kenneth Rogoff, *Foundations of International Macroeconomics*, New

York: MIT Press, 1996.

Zhou, Z, and Yue Ma, (et al), "The Full Convertibility of Renminbi: Sequencing and Influence", *Hong Kong Institute for Monetary Research Working Paper*, No.9/2002.

Students are recommended to keep up to date with the financial news by reading the Wall Street Journal, Barron's, or the Financial Times (for a more global perspective). In addition, the World Wide Web has many sites that provide up-to-date financial information. A list of some of these sites is attached at the end of this syllabus.

Internet Addresses

Stock and Index Quotes

quote.yahoo.com
investor.msn.com
www.nyse.com

Bond, Currency and Foreign Exchange Quotes

www.jpmorgan.com
www.moneyline.com
www.olsen.com
www.quote.com

Mutual Funds

www.morningstar.com
www.brill.com

Financial Market News

www.cnnfn.com
www.bloomberg.com
www.dbc.com
www.wsj.com
cbs.marketwatch.com

Online Brokerage

www.schwab.com
www.discoverbroker.com
www.waterhouse.com

www.ameritrade.com

www.datek.com

www.etrade.com

Company Information

www.sec.gov

www.hoovers.com

www.valueline.com

www.freeedgar.com

Interest Rate and Macroeconomic Data

www.stls.frb.org/fred

Other Financial Sites

www.cob.ohio-state.edu/~fin/overview.htm

Important Notes:

(1) Students are expected to spend a total of 9 hours (i.e. 3 hours of class contact and 6 hours of personal study) per week to achieve the course learning outcomes.

(2) Students shall be aware of the University regulations about dishonest practice in course work, tests and examinations, and the possible consequences as stipulated in the Regulations Governing University Examinations and Course Work. In particular, plagiarism, being a kind of dishonest practice, is "the presentation of another person's work without proper acknowledgement of the source, including exact phrases, or summarised ideas, or even footnotes/citations, whether protected by copyright or not, as the student's own work". Students are required to strictly follow university regulations governing academic integrity and honesty.

(3) Students are required to submit writing assignment(s) using Turnitin.

(4) To enhance students' understanding of plagiarism, a mini-course "Online Tutorial on Plagiarism Awareness" is available on https://pla.ln.edu.hk/.

(5) Students must adhere to the University's guidelines and practices when using Generative Artificial Intelligence (AI) tools. The official documents "Guidelines for Using GAI Tools at Lingnan University" and "Best Practices for Ethical and Responsible Use of GAI Tools in Course Assessments" can be found here: https://www.ln.edu.hk/tlc/generative-artificial-intelligence/gai-guidelines-best-practices.

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Rubric for Quizzes (15%) and Midterm Tests (70%)

Learning Outcome	Excellent	Good	Fair	Pass	Failure
Understand basic principles, concepts, and theories in financial economics (15%)	Thorough understanding of principles, concepts, and theories	Good understanding of principles, concepts, and theories	Some understanding of principles, concepts, and theories	Little understanding of principles, concepts, and theories	No understanding of principles, concepts, and theories
Apply calculations and statistics to financial data (15%)	Mastery of the applications	Good grasp of the applications	Some grasp of the applications	Little grasp of the applications	No grasp of the applications
Understand financial markets and financial data interpretations (15%)	Mastery of these concepts	Good grasp of these concepts	Some grasp of these concepts	Little grasp of these concepts	No grasp of these concepts
Evaluate and apply different models and strategies to data (15%)	Excellent application of learned materials to data	Good application of learned materials to data	Knows some application of learned materials to data	Little knowledge of the application of learned materials to data	No knowledge of the application of learned materials to data

Rubric for Project Report (15%)

Learning Outcome	Excellent	Good	Fair	Pass	Failure
Apply finance concepts and apply to a real-world	Demonstrates excellent knowledge of relevant subject	Demonstrates good knowledge of relevant subject	Demonstrates some knowledge of relevant subject	Demonstrates little knowledge of relevant subject	Demonstrates no knowledge of relevant subject

setting (10%)	matters; performs all or most of the required quantitative operations correctly	matters; performs some required quantitative operations correctly	matters; fails to perform all or most required quantitative operations correctly	matters; fails to perform all or most required quantitative operations correctly	matters; fails to perform all or most required quantitative operations correctly
Interpret, evaluate, and explain results from a financial perspective (10%)	Critically analyzes the problems and formulates solutions with relevant knowledge/ theories; interpret results with appropriate criteria; justifies the answers with cogent arguments and convincing evidence	Analyzes the problems and formulates solutions with some relevant knowledge/ theories; interpret results with good applicable criteria; justifies answers with arguments and evidence	Okay analysis of the problems and formulate solutions with some relevant knowledge/ theories; some interpretation of results; justify the answers with some arguments and evidence	Poorly analyzes the problems and unable to formulate solutions with relevant knowledge/ theories; lacks interpretation of results; fails to justify the answers with cogent arguments and evidence	Little to no analysis of the problems and unable to formulate solutions with relevant knowledge/ theories; lacks interpretation of results; fails to justify the answers with cogent arguments and evidence