

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

Brief Course Description

This course provides a rigorous, hands-on introduction to the science (some would say art) of investing in marketable securities in global financial markets. It begins by discussing the contemporary investment environment including institutional aspects, and market efficiency. The course then moves on to modern investment processes, including discussion of asset valuation, portfolio theory and applications, linear factor models and applications. During the course, you will familiarize yourself with financial data sources and with methods for accessing them. Finally, you will learn to interpret financial information using finance theory.

Aims

The aims 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, problem assignments, group presentation, reading assignments and discussions.

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 conflict of interests and agency problems in financial markets and institutions;
2. assess decision making under uncertainty; discuss trade-off between risk and return and construct optimal portfolio;
3. exhibit an understanding of important theories in financial economics; and
4. evaluate and apply different models and strategies of financial theories to data.

Indicative Contents

- I. Financial market, instruments and institutions
- II. Theory [Capital Asset Pricing Model (CAPM) and Arbitrage Pricing Theory (APT)]
- III. Empirical [Empirical CAPM and APT]
- IV. Equity valuation models and security analysis
- V. Portfolio performance evaluation and management
- VI. Other finance topics (private equity, venture capital, risk management)

Teaching Method

Lectures are supported by tutorials involving discussions and presentations. Students are expected to actively participate in class discussions. 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 mind on the subject matter. Microsoft Excel (or another program that can do simple regression and summarize statistics) will be used on financial data.

Measurement of Learning Outcomes

1. Tutorial presentation/participation and discussion are designed to assess student's comprehension of lecture and assigned readings. Students will be working in groups to solve problems taught during the lecture. Students are also encouraged to discuss the recent trends or events in financial markets (e.g. financial crisis, fraud, IPOs etc.). Extra points and bonus will be given to critically raised questions. (LOs 1-4)
2. A term project is designed to assess the students capability to apply financial concepts provided during the first half of the semester. (LOs 1-3)
3. A final exam covering all the taught topics will be provided to assess students' understanding and applications of financial concepts introduced in the course. (LOs 1-4)

Assessment

Continuous assessment	:	40%	
		(mid-term exam*	- 20%
		tutorial presentations **	- 20%)
Final examination*	:	60%	

*Assessment for the midterm and final test are based on learned materials and understanding how to apply financial concepts to data. Students should have a good grasp of the simple empirical models discussed in class, as well as the theory behind them. Grades are based on the correctness and the depth of the knowledge.

** Presentation grades are based on the novelty of the ideas presented, as well as the depth. Participation grades are given out based on the engagement in class.

Rubric for Final Examination (60%)

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 grasps of the applications	No grasps 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 grasps of these concepts	No grasps 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 on the application of learned materials to data	No knowledge on the application of learned materials to data

Rubric for Mid-term Project (20%)

Learning Outcome	Excellent	Good	Fair	Pass	Failure
Apply finance concepts and apply to a real-world setting (10%)	Demonstrates excellent knowledge of relevant subject matters; performs all or most of the required quantitative operations correctly	Demonstrates good knowledge of relevant subject matters; performs some required quantitative operations correctly	Demonstrates some knowledge of relevant subject matters; fails to perform all or most required quantitative operations correctly	Demonstrates little knowledge of relevant subject matters; fails to perform all or most required quantitative operations correctly	Demonstrates no knowledge of relevant subject 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

Rubric for Presentation (20%)

Learning Outcome	Excellent	Good	Fair	Pass	Failure
Understand basic principles, concepts, and theories in financial economics (20%)	Extremely logical and very appealing organization that is easy to understand; drawing interest from classmates; clear voice; correct pronunciations; enthusiastic tone; positive image with upright posture; lively gestures; uses tools (slides/ handouts/ props) in an excellent manner	Logical and appealing organization that is easy to understand; drawing interest from classmates; clear voice; correct pronunciations; enthusiastic tone; positive image with upright posture; lively gestures; effectively uses tools (slides/ handouts/ props)	Reasonable organization that is understandable; keeping classmates attentive; clear voice; mostly correct pronunciations; positive tone and image; some appropriate gestures; suitably uses tools (slides/ handouts/ props)	Organization that is difficult to understand; losing interest from classmates; unclear voice; many incorrect pronunciations; passive tone; negative image; no or inappropriate gestures; fails to or inappropriately use tools (slides/ handouts/ props)	No organisation; no interest from classmates; unclear voice; many incorrect pronunciations; passive tone; negative image; no or inappropriate gestures; fails to or inappropriately use tools (slides/ handouts/ props)

Required/Essential Reading

Bodie Zvi, Kane Alex and Alan J. Marcus, *Investments*, 12th Edition, McGraw-Hill, 2021.

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.freedgar.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. 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) To enhance students’ understanding of plagiarism, a mini-course “Online Tutorial on Plagiarism Awareness” is available on <https://pla.ln.edu.hk/>.