City University of Hong Kong

Information on a Course
offered by Department of Economics and Finance
with effect from Semester A in 2019 / 2020

Part I **Course Overview**

Course Title:	**Theoretical Asset Pricing**
Course Code:	**EF8077**
Course Duration:	**1 semester**
Credit Units:	**3**
Level:	**R8**
Medium of Instruction:	**English**
Medium of Assessment:	**English**
Prerequisites: *(Course Code and Title)*	**Nil**
Precursors: *(Course Code and Title)*	**EF8070 Advanced Microeconomics, EF8072 Advanced Macroeconomics & EF5470 Advanced Econometrics**
Equivalent Courses: *(Course Code and Title)*	**Nil**
Exclusive Courses: *(Course Code and Title)*	**Nil**

Part II   Course Details

1.   Abstract

The objective 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, reading assignments, projects and discussions.

2.   Course Intended Learning Outcomes (CILOs)

No.	CILOs#	Weighting* (if applicable)	Discovery-enriched curriculum related learning outcomes (please tick where appropriate)		
			A1	*A2*	*A3*
1.	Understand the concept of the stochastic discount factor, the Euler pricing restrictions and their relation to traditional portfolio analysis.	15%	√	√	
2.	Understand fundamental asset pricing models such as the CAPM and consumption CAPM in detail.	20%	√	√	
3.	Understand the theoretical underpinnings of conditional asset pricing models such as the ICAPM, Jagannathan and Wang (1996) and Lettau and Ludvigson (2001) models.	20%	√	√	
4.	Explain various puzzles from theoretical asset pricing models	20%	√	√	
5.	Understand theoretical term-structure models and market microstructure theory	15%	√	√	
6.	Discover, through a project, the current performance of previously proposed asset pricing models.	10%	√	√	√
* If weighting is assigned to CILOs, they should add up to 100%.		100%			

A1:   Attitude
Develop an attitude of discovery/innovation/creativity, as demonstrated by students possessing a strong sense of curiosity, asking questions actively, challenging assumptions or engaging in inquiry together with teachers.
A2:   Ability
Develop the ability/skill needed to discover/innovate/create, as demonstrated by students possessing critical thinking skills to assess ideas, acquiring research skills, synthesizing knowledge across disciplines or applying academic knowledge to self-life problems.
A3:   *Accomplishments*
Demonstrate accomplishment of discovery/innovation/creativity through producing /constructing creative works/new artefacts, effective solutions to real-life problems or new processes.

3. Teaching and Learning Activities (TLAs)

TLA	Brief Description	CILO No.						Hours/week (if applicable)
		1	2	3	4	5	6	
Lectures, in-class discussions, assignments	Discuss and illustrate the various asset pricing theories and models.	√	√	√	√	√		Equivalent of 2.5 hours lecture and discussions per week
Discovery based project work	Discover, through a project, the current performance of previously proposed asset pricing models.						√	Equivalent of 0.5 hr/week

4. Assessment Tasks/Activities (ATs)

Assessment Tasks/Activities	CILO No.						Weighting*	Remarks
	1	2	3	4	5	6		
Continuous Assessment: <u>40</u> %								
Homework assignments, discussions	√	√	√	√	√		10%	
Discovery based project						√	30%	
Examination: <u>60</u> % (duration: 3 hours, if applicable)								
Examination	√	√	√	√	√		60%	
* The weightings should add up to 100%.							100%	

Students are required to pass both coursework and examination components in order to pass the course.

5. Assessment Rubrics

Assessment Task	Criterion	Excellent (A+, A, A-)	Good (B+, B, B-)	Fair (C+, C, C-)	Marginal (D)	Failure (F)
1. Homework assignments, discussions	Demonstrate the ability to apply the financial economics theories and models to tackle the problem solving questions and assignments as assigned.	High	Significant	Moderate	Basic	Not even reaching marginal levels
2. Discovery based project	Demonstrate the capability to discover, through a project, the performance of selected asset pricing models.	High	Significant	Moderate	Basic	Not even reaching marginal levels
3. Examination	Demonstrate good understanding of the various financial economics theories and models that were taught in the course.	High	Significant	Moderate	Basic	Not even reaching marginal levels

Part III   Other Information

1.   Keyword Syllabus

Capital Markets, Asset Pricing, Stochastic Discount Factor, Optimal Portfolio, Mean-Variance analysis, CAPM, Consumption CAPM, Conditional CAPM, Conditional consumption CAPM, ICAPM, human capital, Option pricing theory, Theoretical term-structure models, Market microstructure theory, discover current performance of asset pricing models

2.   Reading List
2.1   Compulsory Readings

1.	Back, Kerry (2017) <u>Asset Pricing and Portfolio Choice Theory</u>, 2ed, Oxford University Press
2.	Costis Skiadas, <u>Asset Pricing Theory</u>, Princeton, 2009.

2.2   Additional Readings

1.	*Journal of Finance*
2.	*Journal of Financial Economics*
3.	*Review of Financial Studies*
4.	*Journal of Financial and Quantitative Analysis*