EF5404: FINANCIAL ECONOMICS

Effective Term

Semester B 2024/25

Part I Course Overview

Course Title

Financial Economics

Subject Code

EF - Economics and Finance

Course Number

5404

Academic Unit

Economics and Finance (EF)

College/School

College of Business (CB)

Course Duration

One Semester

Credit Units

3

Level

P5, P6 - Postgraduate Degree

Medium of Instruction

English

Medium of Assessment

English

Prerequisites

Nil

Precursors

EF5471 Advanced Microeconomics,
EF5472 Advanced Macroeconomics and
EF5470 Advanced Econometrics

Equivalent Courses

Nil

Exclusive Courses

Nil

Part II Course Details

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.

Course Intended Learning Outcomes (CILOs)

	CILOs	Weighting (if app.)	DEC-A1	DEC-A2	DEC-A3
1	Understand the concept of the stochastic discount factor, the Euler pricing restrictions and their relation to traditional portfolio analysis.	15	x	x	
2	Understand fundamental asset pricing models such as the CAPM and consumption CAPM in detail.	20	x	x	
3	Understand the theoretical underpinnings and empirical support of conditional asset pricing models such as the ICAPM, Jagannathan and Wang (1996) and Lettau and Ludvigson (2001) models.	20	x	x	
4	Understand the testing of asset pricing models with the use of cross sectional regressions.	20	x	x	
5	Understand the use of GMM tests of Euler asset pricing restrictions as a way of evaluating asset pricing models.	15	x	x	
6	Discover, through a project, the current performance of previously proposed asset pricing models.	10	x	x	x

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 real-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.

Learning and Teaching Activities (LTAs)

	LTAs	Brief Description	CILO No.	Hours/week (if applicable)
1	Lectures, in-class discussions, assignments	Discuss and illustrate the various financial economics theories and models.	1, 2, 3, 4, 5	Equivalent of 2.5 hours lecture and discussions per week

2	Discovery based project work	Discover, through a project, the current performance of previously proposed asset pricing models.	6	Equivalent of 0.5 hour per week

Assessment Tasks / Activities (ATs)

	ATs	CILO No.	Weighting (%)	Remarks (e.g. Parameter for GenAI use)
1	Homework assignments, discussions	1, 2, 3, 4, 5	10	
2	Mid-term examination	1, 2, 3, 4, 5	20	
3	Discovery based project	6	10	

Continuous Assessment (%)

40

Examination (%)

60

Examination Duration (Hours)

3

Additional Information for ATs

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

Assessment Rubrics (AR)

Assessment Task

Homework assignments, discussions (for students admitted before Semester A 2022/23 and in Semester A 2024/25 & thereafter)

Criterion

Demonstrate the ability to apply the financial economics theories and models to tackle the problem solving questions and assignments as assigned.

Excellent

(A+, A, A-) High

Good

(B+, B, B-) Significant

Fair

(C+, C, C-) Moderate

Marginal

(D) Basic

Failure

(F) Not even reaching marginal levels

Assessment Task

Mid-term examination (for students admitted before Semester A 2022/23 and in Semester A 2024/25 & thereafter)

Criterion
Demonstrate good understanding of the various financial economics theories and models that were taught in the course.

Excellent
(A+, A, A-) High

Good
(B+, B, B-) Significant

Fair
(C+, C, C-) Moderate

Marginal
(D) Basic

Failure
(F) Not even reaching marginal levels

Assessment Task
Discovery based project (for students admitted before Semester A 2022/23 and in Semester A 2024/25 & thereafter)

Criterion
Demonstrate the capability to discover, through a project, the performance of selected asset pricing models.

Excellent
(A+, A, A-) High

Good
(B+, B, B-) Significant

Fair
(C+, C, C-) Moderate

Marginal
(D) Basic

Failure
(F) Not even reaching marginal levels

Assessment Task
Examination (for students admitted before Semester A 2022/23 and in Semester A 2024/25 & thereafter)

Criterion
Demonstrate good understanding of the various financial economics theories and models that were taught in the course.

Excellent
(A+, A, A-) High

Good
(B+, B, B-) Significant

Fair
(C+, C, C-) Moderate

Marginal
(D) Basic

Failure
(F) Not even reaching marginal levels

Assessment Task
Homework assignments, discussions (for students admitted from Semester A 2022/23 to Summer Term 2024)

Criterion
Demonstrate the ability to apply the financial economics theories and models to tackle the problem solving questions and assignments as assigned.

Excellent
(A+, A, A-) High

Good
(B+, B) Significant

Marginal
(B-, C+, C) Basic

Failure
(F) Not even reaching marginal levels

Assessment Task
Mid-term examination (for students admitted from Semester A 2022/23 to Summer Term 2024)

Criterion
Demonstrate good understanding of the various financial economics theories and models that were taught in the course.

Excellent
(A+, A, A-) High

Good
(B+, B) Significant

Marginal
(B-, C+, C) Basic

Failure
(F) Not even reaching marginal levels

Assessment Task
Discovery based project (for students admitted from Semester A 2022/23 to Summer Term 2024)

Criterion

Demonstrate the capability to discover, through a project, the performance of selected asset pricing models.

Excellent
(A+, A, A-) High

Good
(B+, B) Significant

Marginal
(B-, C+, C) Basic

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(F) Not even reaching marginal levels

Assessment Task
Examination (for students admitted from Semester A 2022/23 to Summer Term 2024)

Criterion
Demonstrate good understanding of the various financial economics theories and models that were taught in the course.

Excellent
(A+, A, A-) High

Good
(B+, B) Significant

Marginal
(B-, C+, C) Basic

Failure
(F) Not even reaching marginal levels

Part III Other Information

Keyword Syllabus

Capital Markets, Asset Pricing, Stochastic Discount Factor, Optimal Portfolio, Mean-Variance analysis, Cross sectional regression, Euler restrictions, GMM, CAPM, Consumption CAPM, Conditional CAPM, Conditional consumption CAPM, ICAPM, human capital, discover current performance of asset pricing models

Reading List

Compulsory Readings

	Title
1	John H. Cochrane, Asset Pricing, Revised ed., Princeton, 2005.
2	Costis Skiadas, Asset Pricing Theory, Princeton, 2009.

Additional Readings

	Title
1	Journal of Finance
2	Journal of Financial Economics

3	Review of Financial Studies
4	Journal of Financial and Quantitative Analysis