

**Course Outline 2017**  
**ECON 351: FINANCIAL ECONOMICS (15 POINTS)**  
**Semester 1 (1173)**

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**Course Prescription**

This undergraduate elective focuses on financial economics, with an emphasis on asset pricing and the valuation of risky cash flows. It will also explore financial intermediation, models of financial crisis, and links between financial intermediation to the real economy.

The first part of the course will rigorously develop the details of consumer decision-making under uncertainty and use this general framework as a basis for understanding asset pricing, including the capital asset pricing model (CAPM), the consumption capital asset pricing model (CCAPM), and Arrow-Debreu theories.

The second part of the course will introduce students to some key models in the economics of banking and financial crises.

**Programme and Course Advice**

Prerequisite: ECON 201 Microeconomics. MATH 208 (or 250) is highly recommended.

*Mathematical analysis is important to fully appreciate the subject matter. Accordingly, the lectures and tutorials will assume that students are comfortable with calculus, static optimization, and statistical concepts of the sort that is typically covered in most first (and sometimes second) year university courses in mathematics.*

This course complements ECON 301 Microeconomics, ECON 352 International Finance. It also complements courses like FINANCE 361 Modern Investment Theory and Management\*, FINANCE 362 Risk Management\*, and STATS 370 Financial Mathematics\*.

\*Note that, unlike courses offered by the Finance Department, the emphasis of this course will be on the underlying economic foundations (micro and macro). So although some topics are the same, the treatment is quite different in nature and approach.

**Goals of the Course**

The goal of this course is to provide students with a thorough understanding of the economic foundations of asset pricing and financial intermediation.

**Learning Outcomes**

By the end of this course it is expected that the student will be:

1. familiar with the basic concepts and theoretical methods of asset pricing;
2. familiar with concepts and models that shed light on financial intermediation and financial crises.

## Content Outline (Provisional)

### *Provisional course outline*

Week 1, 2:	Choice under risk
Week 3,4	Portfolio selection and the capital asset pricing model
Week 5:	The Consumption CAPM
Week 6:	<b>Review Lectures</b>
Week 7:	Arrow-Debreu approach
Week 8:	Bank runs
Week 9:	Financial intermediation and the real economy
Week 10:	Asset price bubbles
Week 11:	Macroprudential policy
Week 12:	Liquidity and contagion
Week 13:	<b>Review Lectures</b>

### Learning and Teaching

This course will be taught in the first semester. There will be 4 hours of lectures per week (two 2 hour lectures). A tutor will hold weekly classes starting week 2 (details to be confirmed in the first lecture). There will be three tutorials in the week [Monday 2-3pm; Wednesday 3-4 pm, Friday 1-2pm].

### Teaching Staff

**Professor Prasanna Gai**, room 677, 6<sup>th</sup> floor, Owen G. Glenn building,  
Telephone: 923 8310, email: p.gai@auckland.ac.nz

**Tutor: Sherry Wu**, email: xwu901@aucklanduni.ac.nz

### Learning Resources

There is no set text. My lecture notes (which will be posted shortly before each lecture) will serve as a useful starting point for further reading. But I will regularly refer to the books by Danthine & Donaldson and Eichberger & Harper below for the first part of the course. These books, aimed at advanced undergraduate and postgraduate students, are accessible and are also worthwhile investments if you intend to seriously pursue Financial Economics in future. The books should be available from the Library (short-loan) and from the bookstore.

The second part of the course, on bubbles and crises, will draw on journal papers available from the library.

#### *Recommended Reading:*

Danthine and Donaldson. Intermediate Financial Theory. Academic Press (Elsevier).

Eichberger, J. and I. Harper. Financial Economics, Oxford University Press.

## Assessment

Assessment will be based on four components: A mid-term test worth 20%, a comprehensive Final Examination worth 60% of the total mark, and two assignments worth 10% each. **Plussage will not apply.**

Learning Outcome	Assignments 1 and 2	Test	Final Examination
1	X	X	X
2	X		X

## **CHEATING AND PLAGIARISM**

The University of Auckland regards cheating as a serious academic offence.

Plagiarism is a form of cheating. In coursework assignments submitted for marking, plagiarism can occur if you use the work and ideas of others without explicit acknowledgment. Work can be plagiarised from many sources, including books, journal articles, the internet, and other students' assignments. A student's assessed work may be reviewed against electronic source material using computerised detection mechanisms. Upon reasonable request, students may be required to provide an electronic version of their work for computerised review.

The way of avoiding plagiarism is to reference your work properly. If you are in doubt about how to reference properly, ask someone – your lecturers, tutors and the Student Learning Centre are good places to start. Please refer to the following website for further information about academic referencing: [www.cite.auckland.ac.nz/](http://www.cite.auckland.ac.nz/)

The document *Guidelines: Conduct of Coursework* provides further advice on how to avoid plagiarism. It can be found at: <https://policies.auckland.ac.nz/policies/Polices/policy-display-register/guidelines-for-the-conduct-of-coursework.pdf>

The penalties for plagiarism can be severe, including losing some or all of the marks for the assignment. Major offences can be sent to the University's Discipline Committee, where further penalties can be imposed.

## **THIRD PARTY ASSISTANCE WITH COURSEWORK**

While you are encouraged to improve your coursework writing skills and are permitted to seek assistance from third parties you are advised that there are important limits on the amount and type of assistance that can be given to you in completing your assignments, including group work. Third parties include fellow students, reading groups, friends, parents, SLC tutors, and paid-for professional editing services.

There is a set of guidelines which clearly indicates the type of advice and assistance that can be given. If you are seeking the assistance of any third party you are required to give a copy of the guidelines to the person prior to them helping or assisting you.

You are also required to only seek and accept help using a printed version of your work, not an electronic version. You must keep a copy of this printed version and produce it if required.

A copy of the guidelines is available at: [www.business.auckland.ac.nz/thirdpartyassistance](http://www.business.auckland.ac.nz/thirdpartyassistance)

## **HELP WITH ACADEMIC REFERENCING**

Acknowledgement of sources is an important aspect of academic writing. The University's Referen©ite website [www.cite.auckland.ac.nz](http://www.cite.auckland.ac.nz) provides students with a one-stop online resource for academic referencing needs. Referen©ite explains the essentials of referencing and how to avoid plagiarism. It also includes practical tools to help students reference correctly, use references effectively in writing, and gives fast access to some major reference formats with examples.

### **INCLUSIVE LEARNING**

Students are urged to discuss privately any impairment-related requirements face-to-face and/or in written form with the course convenor/lecturer and/or tutor.

### **STUDENT FEEDBACK**

Student feedback is encouraged in this course. During the semester, students may directly submit their feedback to the lecturer through a face-to-face appointment, or they may wish to submit feedback through the class representative.

#### ***Class representatives***

At the beginning of each semester, you will elect a class representative for the paper<sup>[1]</sup>. The role of the class representative is to gather feedback from students in the course and bring this to the lecturer and/or the Department. Class representatives' email addresses are posted on Cecil and you are encouraged to contact them with feedback relating to the course. You are also welcome to talk to the class representatives in person.

#### ***Staff-Student Consultative Committee***

Class representatives also submit feedback to the Department of Economics Staff Student Consultative Committee (SSCC), which meets up to three times per semester to gain feedback regarding the course. Only class representatives may attend the SSCC meetings, and they will ask the class for feedback before the SSCC meeting.

#### ***Course and teaching evaluations***

At the end of the semester, you will have the opportunity to submit an evaluation of the course in a formative feedback questionnaire.

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<sup>[1]</sup> An election will not take place if the number of applicants for the class representative positions equals the number of positions available.