UNIVERSITAS INDONESIA

Finance Theory
Syllabus and Introduction

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Our Syllabus for This Semester

Find the materials here https://s.id/ipsh_fintheory_odd25

	Subject	Reference
1	Introduction: History and Building Block of Finance	Megginson Ch. 1
2	Asset Pricing 1: CAPM dan FF 3 Factor Model	Markowitz (1952), Sharpe (1964), Fama and French (1993)
3	Asset Pricing 2: Carhart Four Factor Model and FF 5 Factor Model	Carhart (1997), Fama and French (2015)
4	Efficient Market Hypothesis (EMH), Stock Return Pattern: Stylized Facts, Anomalies	Megginson Ch. 3 Section 3.6, Fama (1970), Tambahan : Fama (1991)
5	Market Microstructure	Megginson Ch. 4 Section 4.7, O'Hara (1999)
6	Behavioral Finance	Shiller (2003)
7	Presentation: Academic Journal Review	
	Mid-Term Exams	
8 dan 9	Agency Theory	Jensen &Meckling (1976); Di Wang, Guangqiang Liu and Linlin Xie (2023), Solomon et al (2021), Yung-Ling Chi (2023)
10 dan 11	Capital Structure • MM Proposition • Agency Cost / Trade Off Model • Pecking Order Hypotheses • Signaling/Asymmetric Information Model	Megginson Ch. 7, Myers (2001), Zeidan et al (2018)
12	Fintech and Financing Constraint	Du and Geng (2024)
13	Dividend Policy • MM Proposition • Market Imperfection Model • Agency Cost / Contracting Model • Dividend Signaling Model	Megginson Ch. 8 Black (1976) Bagwell &Shoven (1989) Hussain and Akbar (2022)
14	Presentation: Research Proposal	
	Final Exams	

Building Blocks of Modern Finance Theory

1. **Savings and Investment in Perfect Capital Markets:** Fisher (1930) shows how capital markets increase the utility both of economics agents – savers and borrowers
2. **Portfolio Theory:** Harry Markowitz (1952) with the portfolio selection rule by pick stocks with the highest return-to-risk (covariance) ratios and combine these stocks into efficient portfolios.
3. **Capital Structure Theory**: Modigliani & Miller (1952) with capital irrelevance theory proposed that the economic value of the bundle of assets owned by a firm derives solely form the stream of operating cash flow those assets produce, regardless of how those assets are financed – in a frictionless market.
4. **Dividend Policy:** Miller & Modigliani (1961) with dividend irrelevance theory proposed that the payment of cash dividends cannot affect firm value – in a frictionless market.
5. **Asset Pricing Models**: Sharpe (1964) published capital asset pricing models (CAPM) asserting that since unsystematic risk could be diversified away, the only factor influence rate of return is the systematic risk.
6. **Efficient Capital Market Theory:** Fama (1970) defining market efficiency as the speed and completeness with which capital markets incorporate relevant information into security prices.
7. **Option Pricing Theory:** Black-Scholes (1973) a tool for analyzing any situation where a corporation or individual wants to ensure against the risk of an adverse price change without giving up the opportunity to profit if price change in your favor, relying on 5 critical variables (underlying asset prices, strike price, time-to-expiration, risk-free rate, and volatility)
8. **Agency Theory:** Jensen & Meckling (1976) proposed a theory regarding different interest of the principal (resource provider) and agent (resource manager) would produce the agency problem and make rise of the agency costs.
9. **Signaling Theory:** In an information-asymmetric situation that to distinct high-quality and low-quality firm is very difficult, the high-quality firm managers would employ a signal that attainable by them buat hard to mimic my the low-quality firms.
10. **The Modern Theory of Corporate Control:** Study related to Merger and Acquisition (M&A) Started by Bradley (1980) who studies the stock price performance of companies that are target of takeover bids
11. **The Theory of Financial Intermediation:** Study related to bank financing as the alternative of capital market financing
12. **Market Microstructure Theory:** Started since 1985, market microstructure study is the study of how securities markets set prices, compensate market makers, and incorporate information into equilibrium price levels.

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Financial Research Stream

Code	Classifcation Description
G	Financial Economics
G0	General
G00	General
G01	Financial Crises
G1	General Financial Markets
G10	General
G11	Portfolio Choice • Investment Decisions
G12	Asset Pricing • Trading Volume • Bond Interest Rates
G13	Contingent Pricing • Futures Pricing
G14	Information and Market Efficiency • Event Studies • Insider Trading
G15	International Financial Markets
G17	Financial Forecasting and Simulation
G18	Government Policy and Regulation
G19	Other
G2	Financial Institutions and Services
G20	General
G21	Banks • Depository Institutions • Micro Finance Institutions • Mortgages
G22	Insurance • Insurance Companies • Actuarial Studies
G23	Non-bank Financial Institutions • Financial Instruments • Institutional Investors
G24	Investment Banking • Venture Capital • Brokerage • Ratings and Ratings Agencies
G28	Government Policy and Regulation
G29	Other
G3	Corporate Finance and Governance
G30	General
G31	Capital Budgeting • Fixed Investment and Inventory Studies • Capacity
G32	Financing Policy • Financial Risk and Risk Management • Capital and Ownership Structure • Value of Firms • Goodwill
G33	Bankruptcy • Liquidation
G34	Mergers • Acquisitions • Restructuring • Corporate Governance
G35	Payout Policy
G38	Government Policy and Regulation
G39	Other
G4	Behavioral Finance
G40	General
G41	Role and Effects of Psychological, Emotional, Social, and Cognitive Factors on Decision Making in Financial Markets

Source: https://www.aeaweb.org/jel/guide/jel.php

THANK YOU

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