

**Chinese University of Hong Kong
Department of Economics**

**ECON 3420: Financial Economics
2017 First Term**

Course Syllabus

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Course Description: This course studies financial economics, a field of economics that focuses on exchanges in which money of one type or another is likely to appear on both sides of a trade. Financial economists can be distinguished from other economists by their concentration on monetary activities in which time, uncertainty, and information play significant roles, because investment is essentially present sacrifice for future benefit. We cover both basic theories and empirics of financial markets, with emphasis on portfolio choice and asset pricing. In particular, portfolio choice refers to the ways in which investors make decisions concerning savings and investments, whereas asset pricing refers to the process by which the prices of financial assets are determined. Unlike some other introductory courses, this course will also evaluate the empirical success of the basic theories and to discuss some practical issues from an industrial viewpoint.

Course Logistic: Class meets every Monday 11:30am-12:15pm (ELB_LT1) and Wednesday 4:30pm-6:15pm (ELB_LT1). When there is a need, ad hoc tutorial session will also be arranged.

Grading: There will be 3-4 problem sets, one midterm and one final exam. Problem sets will count for 30%, the midterm and the final exams will count for 30% and 40 % respectively of the final grade.

Course Materials: The textbook is *Investors and Markets: Portfolio Choices, Asset Prices, and Investment Advice* by William F. Sharpe. In addition, class notes and assigned readings will be posted on a regular basis. If you are really interested in investment in practice, another reference that I highly recommend is *Efficiently Inefficient: How Smart Money Invests and Market Prices Are Determined* by Lasse Heje Pedersen.

Course Outline:

Topic 1: If You Are So Smart, Why Ain't You Rich? (The Way Economists Think About Investment))

Topic 2: Should Investors Index? (Mutual Fund Theorem: Theory and Practice)

Topic 3: Are Stock Prices Predictable? (CAPM, Three-Factor Model, and EMH)

Topic 4: How FinTech Is Going To Change Financial Economics?

Honesty in Academic Work:

Please visit the following website for details of university policy on Honesty in Academic Work: <http://www.cuhk.edu.hk/policy/academichonesty/>. Each assignment must be submitted together with a signed declaration of originality.

I declare that the assignment here submitted is original except for source material explicitly acknowledged, and that the same or closely related material has not been previously submitted for same or different courses. I also acknowledge that I am aware of University policy and regulations on honesty in academic work, and of the disciplinary guidelines and procedures applicable to breaches of such policy and regulations, as contained in the website <http://www.cuhk.edu.hk/policy/academichonesty/>.

Signature

Date

Name

Student ID

Course code

Course title