

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

**ECON 3420: Financial Economics**

1<sup>st</sup> term 2018-2019

**Instructor:** Ji Huang

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**Office:** Esther Lee Building (ELB) Room 932

**Office hour:** Mon 4 pm – 5 pm, Wed 1 pm – 2 pm

**Lectures:** Mon 11:30 am – 12:15 pm, Wed 4:30 pm – 6:15 pm

(Ad hoc tutorials will be arranged according to schedule of problem sets, midterm, and final)

**Teaching assistants**

Yuting Zheng, email: [zhengyt@link.cuhk.edu.hk](mailto:zhengyt@link.cuhk.edu.hk), office hour: ELB 1017, Thu 1:30 pm – 2:30 pm

Yang Chen, email: [Chen\\_Yang@link.cuhk.edu.hk](mailto:Chen_Yang@link.cuhk.edu.hk), office hour: ELB 1017, Thu 11 am - noon

**Course Description:** This course is an introduction to investments and asset pricing. It provides an overview of financial markets and instruments including stocks, bonds, futures, options, and other derivatives. A risk-return framework is used to think about optimal asset allocation and equilibrium pricing of securities. Topics covered in this course include both classic topics such as no-arbitrage principle, Capital Asset Pricing Model, two-fund separation theorem, Black-Scholes formula, and recent behavior models that explore the limits of arbitrage.

**Learning outcome:**

- Basic knowledge of asset pricing theory
- Skills of analyzing financial data in a scientific fashion
- Becoming a rational retail investor and capable of working for institutional investors.

**Course Materials:** slides posted regularly on Blackboard. No required textbook. Problem sets, mid and final exams will be based on slides. There are two recommended readings:

Zvi Bodie, Alex Kane, and Alan Marcus, *Investments*, any recent edition, Irwin/McGraw-Hill  
Burton G. Malkiel, *A Random Walk Down Wall Street*, any recent edition, W.W. Norton

**Grading:**

10 percent	class participation
20 percent	problem sets (4-5 even distributed over the semester)
20 percent	mid-term exam (scheduled on Oct 24 <sup>th</sup> in class)
50 percent	final exam

**Couse outlines (tentative):**

No-arbitrage principle

Net present value

Derivative pricing: forward, future, option, Black-Scholes formula

Bond

Term structure of risk-free rate

Investment under uncertainty

Risk aversion and certainty equivalence

Mean-variance analysis

Portfolio choice

Mean-variance efficient frontier

Two-fund separation theorem

Capital Asset Pricing Model

Speculation Models

Market efficiency

Limits of arbitrage