

BF3395 - FINANCIAL ECONOMICS

Module Number: BF3395
Module Title: Financial Economics
Number of Aston Credits 10
Total Number of ECTS Credits: 5
(European Credit Transfer)

1 Staff member responsible for the Module:

Professor Jim Steeley
Finance, Accounting & Law Group

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Availability: Please see office hours on door or group secretary

Other Staff Contributing to the Module: TBA

2 Pre-Requisite(s) for this Module:

Module available only within BSc Economics and Management
and BSc Finance

3 Module Learning Outcomes:

The module is designed to provide an introduction to the application of economic theory to financial decision making. It therefore provides sound analytical perspectives on the behaviour of economic agents that are making decisions where the outcomes are uncertain.

Successful completion of the module will give you a clear understanding of how to measure risk, how to select among risky financial assets, how to determine the influence of risk on the price of financial assets, and how to assess the risk-adjusted performance of financial assets. You will be able to demonstrate these understandings by recommending robust solutions to complex problems in financial decision making.

4 Module Content:

Week 1/2 Intertemporal financial decision making under certainty
Axioms of choice and utility functions, agents' optimisation problem, the interest rate as the opportunity cost of capital, foundations of NPV & IRR

Weeks 3/4/5 Intertemporal financial decision making under uncertainty
Risk preferences and risk aversion. State dependent payoffs and assets, asset allocation problem under uncertainty, pure securities, state prices and market completeness, asset pricing, state price densities, covariance relations and risk neutral pricing, incomplete markets, fundamental theorem of finance

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Weeks 6/7/8 Portfolio selection and asset pricing

The mean and variance model, implications for asset pricing (CAPM and alternative models)

Week 9 Asset Pricing Tests

Cross section tests

Week 10 Information within derivatives

Estimating pure security prices, risk neutral probabilities and risk aversion

Week 11 Performance Measurement

Measuring investment returns, arithmetic versus geometric returns, risk adjustment, style analysis, attribution analysis, performance measurement using a security market line, the Roll critique, further theoretical results

5 International Dimensions:

In the presence of global financial markets, the study of finance naturally transcends national boundaries. Finance theory is applicable regardless of setting.

6 Corporate Connections:

The module will draw on the experience of investment professionals whenever possible.

7 Links to Research

The module will draw on seminal academic research articles and current research being undertaken by the module lecturer and other colleagues in ABS.

8 Learning and Teaching Rationale and Methods

Teaching will be by 2 hour lectures over 11 weeks. This will comprise a mix of formal delivery interspersed with worked problems. The former will meet the prime objective of providing an introduction to the application of economic theory to financial decision making, while the latter will provide the apparatus to achieve the “how to” learning objectives above. Students will be expected to supplement their learning from the lecture sequence with private study from recommended texts, which will include the opportunity to both enhance their analytical perspective and practice their “how to” objectives.

9 How are the 100 learning Hours per module achieved?

Contact Hours	22	hours
Private Study	76	hours
Examination	2	hours
Total	100	hours

10 Ethical approval

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This module contains no requirement for primary data collection, therefore ethical approval for research is not required

11 Assessment and Feedback Rationale and Methods

The module will be assessed by a single closed book final examination of two hours in duration. By appropriate design, with a mix of both analytical and computational questions, the examination provides a rigorous method to determine whether students have achieved the analytical perspective and “how to” objectives.

Students may request individual feedback on their examination performance once the marks have been approved by the Board of Examiners. Also Feedback will be provided through discussion with the tutors as the module progresses. Students are encouraged to utilise lecturer office hours to obtain more detailed feedback and advice.