

City University of Hong Kong

Information on a Course

offered by Department of Economics and Finance
with effect from Semester A in 2020/2021

Part I Course Overview

Course Title: Theoretical Asset Pricing

Course Code: EF8077

Course Duration: 1 semester

Credit Units: 3

Level: R8

Arts and Humanities

Proposed Area:
(for GE courses only)

Study of Societies, Social and Business Organisations

Science and Technology

Medium of Instruction: English

Medium of Assessment: English

Prerequisites:
(Course Code and Title) Nil

Precursors:
(Course Code and Title) EF8070 Advanced Microeconomics &
EF5250 Stochastic Calculus Finance

Equivalent Courses:
(Course Code and Title) Nil

Exclusive Courses:
(Course Code and Title) Nil

Part II Course Details

1. Abstract

The objective of the course is to present both theoretical issues and material of practical value in financial economics and to develop students' analytical skills and economic sense of the financial markets through lectures, problem assignments, reading assignments, projects and discussions.

2. Course Intended Learning Outcomes (CILOs)

No.	CILOs	Weighting* (if applicable)	Discovery-enriched curriculum related learning outcomes (please tick where appropriate)		
			A1	A2	A3
1.	Build and solve (via Euler-equations) one-period portfolio-choice models; understand the concept of the stochastic discount factor and its use in asset pricing; understand and apply the mean-variance analysis framework; understand the theoretical base of factor models, and their scope and limitations in explaining cross-sectional return distributions.	25%	√	√	√
2.	Understand the basics of representative-agent pricing (CRRA utility and i.i.d. growth); and understand how the basic models can be extended (e.g., Epstein-Zin-Weil utility and predictable growth).	25%	√	√	√
3.	Solve the Black-Scholes model for European-type options by using the concept of stochastic discount factor; understand and solve classical models for default-free bonds; understand the concept of strategic default and solve Leland-type models for the joint pricing of corporate bonds and equity; understand q-theory based on capital accumulation and its equity pricing implications.	25%	√	√	√
4.	Understand theoretical models with asymmetric information, beliefs, and associated learning in financial market and their implications on asset pricing.	25%	√	√	√
		100%			

* If weighting is assigned to CILOs, they should add up to 100%.

A1: Attitude

Develop an attitude of discovery/innovation/creativity, as demonstrated by students possessing a strong sense of curiosity, asking questions actively, challenging assumptions or engaging in inquiry together with teachers.

A2: Ability

Develop the ability/skill needed to discover/innovate/create, as demonstrated by students possessing critical thinking skills to assess ideas, acquiring research skills, synthesizing knowledge across disciplines or applying academic knowledge to self-life problems.

A3: Accomplishments

Demonstrate accomplishment of discovery/innovation/creativity through producing /constructing creative works/new artefacts, effective solutions to real-life problems or new processes.

3. Teaching and Learning Activities (TLAs)

TLA	Brief Description	CILO No.						Hours/week(if applicable)
		1	2	3	4			
Lectures, in-class discussions, assignments	Discuss and illustrate the various asset pricing theories and models.	√	√	√	√			Equivalent of 2.5 hours lecture and discussions per week
Critical Review	Discover and critically review, through a project, the performance of and challenges faced by previously proposed asset pricing models.	√	√	√	√			Equivalent of 0.5 hr/week

4. Assessment Tasks/Activities (ATs)

Assessment Tasks/Activities	CILO No.						Weighting*	Remarks
	1	2	3	4	5	6		
Continuous Assessment: <u>40</u> %								
Homework assignments, discussions	√	√	√	√	√		20%	
Critical Review						√	20%	
Examination: <u>60</u> % (duration: 3 hours, if applicable)								
Examination	√	√	√	√	√		60%	
							100%	

* The weightings should add up to 100%.

Students are required to pass both coursework and examination components in order to pass the course.

5. Assessment Rubrics

Assessment Task	Criterion	Excellent (A+, A, A-)	Good (B+, B, B-)	Fair (C+, C, C-)	Marginal (D)	Failure (F)
1. Homework assignments, discussions	Demonstrate the ability to apply the financial economics theories and models to tackle the problem solving questions and assignments as assigned.	High	Significant	Moderate	Basic	Not even reaching marginal levels
2. Discovery based project	Demonstrate the capability to discover, through a project, the performance of selected asset pricing models.	High	Significant	Moderate	Basic	Not even reaching marginal levels
3. Examination	Demonstrate good understanding of the various financial economics theories and models that were taught in the course.	High	Significant	Moderate	Basic	Not even reaching marginal levels

Part III Other Information

1. Keyword Syllabus

Capital Markets, Asset Pricing, Stochastic Discount Factor, Optimal Portfolio Choice, Mean-Variance analysis, CAPM, , Long-Run Risk, Option pricing theory, Term-structure models, Structural Credit Risk, Market microstructure theory, Heterogeneous Beliefs and Preferences, Information Asymmetry and Learning

2. Reading List

2.1 Compulsory Readings

1.	Back, Kerry (2017) <u>Asset Pricing and Portfolio Choice Theory</u> , 2ed, Oxford University Press
2.	Costis Skiadas, <u>Asset Pricing Theory</u> , Princeton, 2009.

2.2 Additional Readings

1.	<i>Journal of Finance</i>
2.	<i>Journal of Financial Economics</i>
3.	<i>Review of Financial Studies</i>
4.	<i>Journal of Financial and Quantitative Analysis</i>