Syllabus for Financial Economics
440.640
Fall 2013
Johns Hopkins University
Advanced Academic Program

Instructor:
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Course Description:

The aim of the course is to introduce students to a variety of topics related to finance theory. In the first part of the course we will study asset pricing. Asset pricing focuses on the individual asset valuation and investment problem. The asset pricing topics we will cover include: time value of money, risk, CAPM, and valuation of stocks, bonds, and options. In the second part of the course we will study corporate finance. Corporate finance focuses on capital financing and investment from the perspective of corporations. The corporate finance topics we will cover include project finance and investment, structure of finance, agency costs, corporate governance, credit rationing, debt overhang, diversification, and asset collateralization.

The course will provide insight into the economics of financial markets for those interested in both the practice of finance and financial regulatory policy. In the course we will develop tools for understanding complex topics in financial economics by analyzing economic models, solving problems, and examining actual financial data. Students are expected to participate in class discussions and complete homework assignments. Each student will make a presentation as part of a group. The midterm and final will be open-book.

Course Materials

Textbook: Principles of Corporate Finance by Brealey Myers Allen, 11th Edition

Other references:
Theory of Corporate Finance by Jean Tirole
Firms Contracts and Financial Structure by Oliver Hart
Asset Pricing (Revised Edition) by John Cochrane
Lectures

Week 1 (9/4/13)
  Introduction, time value of money, net present value, discount factor, opportunity cost of capital.

Week 2 (9/11/13)
  Financial market institutions, corporations, value of bonds, value of common stocks.

Week 3 (9/18/13)
  Introduction to risk and return, consumption-based model, portfolio theory.

Week 4 (9/25/13)
  Risk premium, idiosyncratic risk, systematic risk, mean-variance frontier, CAPM, efficient market hypothesis.

Week 5 (10/2/13)
  Options, derivative securities, option pricing.

Week 6 (10/9/13)
  Black Scholes options valuations, applications, real options.

Week 7 (10/16/13)
  Corporate finance, capital budgeting and investment, structure of finance, Miller-Modigliani theorem.

Week 8 (10/23/12)
  Midterm

Week 9 (10/30/13)
  Structure of finance, debt and equity securities, agency costs, theory of the firm, corporate governance.

Week 10 (11/6/13)
  Credit rationing, outside financing, borrowing capacity, debt overhang.

Week 11 (11/13/13)
  Corporate Governance.

Week 12 (11/20/13)
  Diversification, Asset Collateralization, Liquidity – Accountability Tradeoff.
Week 13 (12/4/13)
  Liquidity and risk management, vertical integration, information cascades, herding behavior.

Week 14 (12/11/13)
  Final

Grading

Grades based on one midterm (35%), final (35%), homework, participation, and class presentations (30%).