Financial Markets

Module Code: ECO00020M Credits: 10 Term: 2
Contact Hours: 18 one hour lectures (18 contact hours), plus 3 one hour exercise classes
Module Organiser: Professor P. N. Smith

Overview:

The module begins with a brief review of asset pricing and market efficiency. The unifying organising asset pricing principle that is used is the stochastic discount factor model. This provides an arbitrage-free theory of asset prices. The lectures are mainly concerned with the application of this concept, and with the empirical evidence on the related concept of market efficiency. If assets are priced correctly then financial markets are behaving efficiently, and if they are mis-priced then financial markets are not efficient and opportunities may exist for profitable arbitrage.

Aims:

To examine the main empirical features of three key financial markets: the foreign exchange market, the bond market, and the stock market.

Assessment:

There will be a two-hour unseen examination scheduled for the Summer Term. Three exercises will be set during the course which will be discussed in exercise classes.

Pre-requisites:

Although there is no formal pre-requisite, you are strongly advised not to take this course if you have not taken the Theory of Finance or an equivalent course, or a course on econometrics. If you did not take Theory of Finance, you are urged to do some background reading about the key theories of asset pricing. To help such students, Financial Markets will begin with a brief review of the key theoretical concepts used in this course.

Main References:

These will comprise mainly texts but a number of articles will also be recommended in the lectures.

Course Texts


Comment
Cuthbertson and Nitzsche provide a more accessible treatment of empirical finance than Cochrane which is more advanced but less comprehensive.