



**ECON 5022 - Fall 2023**

**Economic Theory for Financial Analysis**

**Instructor:** Professor [Hashmat Khan](#)

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**Office Location:** Loeb C-870

**Office Hours:** Tuesdays, 2pm – 3pm, or by appointment.

**Course Delivery:** In-Person (see Brightspace course page or Carleton Central for location)

**Course Day and Time:** Wednesday, 11:35 am – 2:25 pm

**TA:** Mamoon Kader

**Email Address:** MamoonKader@cmail.carleton.ca

**Office Hours:** TBD

**Brightspace Course Page:** [Click here](#)

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**Course Description**

Concepts in microeconomic theory and macroeconomic theory for financial analysis. Topics may include optimizing consumer and firm behaviour, consumption-based asset pricing, market structure, frictions in goods, labour and financial markets, business cycles and growth, monetary and fiscal policy.

I will use algebra, calculus, and some basic time-series econometrics in the course. Some lectures will use MATLAB to illustrate model properties. I will be using the board extensively to present the course material.

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**Learning Outcomes**

Be able to:

- Understand microeconomic foundations, concepts, and models for macroeconomic and financial analysis.
- Understand the role of uncertainty and expectations in decision-making, and determining trade-offs in labour, financial and goods markets.
- Apply economic models to study a range of topics relevant for financial analysis: consumption, risk, asset pricing, equity premium, business cycles, market frictions.
- Understand how monetary and fiscal policies interact with financial markets in determining aggregate outcomes.

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**Preclusions and Prerequisites**

Enrolment in Master of Finance program. Not open to students in the MA Economics program.

## Course Calendar

September 6 <sup>th</sup>	Introduction and course overview Microfoundations of macro-finance
September 13 <sup>th</sup>	Consumer and Firm Optimization
September 20 <sup>th</sup>	Dynamic considerations: <ul style="list-style-type: none"><li>▪ saving &amp; spending decisions, capital-investment decisions</li><li>▪ expectations and uncertainty</li><li>▪ Complete vs incomplete markets</li></ul>
September 27 <sup>th</sup>	Examples and Applications ( <b>Asynchronous</b> )
October 4 <sup>th</sup>	Consumption-based asset Pricing
October 11 <sup>th</sup>	Equity Premium in stock markets
October 18 <sup>th</sup>	<b>Midterm I</b>
November 1 <sup>st</sup>	Economic Growth
November 8 <sup>th</sup>	Business cycles Financial frictions, information and commitment problems in financial markets
November 15 <sup>th</sup>	Financial instability – Bank runs
November 22 <sup>nd</sup>	<b>Midterm II</b>
November 29 <sup>th</sup>	The 3-equation New Keynesian model Monetary policy, Inflation, Term structure of interest rates
December 6 <sup>th</sup>	A housing market model and house price dynamics

The lectures will be self-contained and present the material that will constitute the main source of information for students. Any additional readings assigned in the lectures will be from academic journals available through the library.

We will not be following any specific textbook. There are many textbooks that cover the course topics and can serve as a reference. The exposition in the following books varies from advanced undergraduate to advanced graduate (Master's/PhD) level.

1. Stephen D. Williamson, *Macroeconomics*, Canadian Edition, 6th edition Pearson Canada, 2021.
2. David Romer, *Advanced Macroeconomics*, 5th Edition, McGraw Hill.
3. John Cochrane, *Asset Pricing: Revised Edition*, Princeton University Press, 2005.
4. Chi-Fu Huang and Robert H. Litzenberger, *Foundations of Financial Economics*, North-Holland.

## **Evaluation**

Exam	Date	Mode of Delivery	Percentage of Grade
Mid-term I	October 18, 2023	In-person	25%
Mid-term II	November 22, 2023	In-person	25%
Final Exam	TBD	In-person	50%
			Total: 100%

Assignments will be given to help practice and absorb the material presented in the lecture. There is no grade associated with the assignments but there will be a good degree of correlation between assignments and the evaluated exams.

You are strongly encouraged to work on the assignment problems by yourself without any external assistance (the web). Only after making an initial attempt, you may then choose to work in groups to compare/contrast your answers. The TA will provide hints on answers, but these will not be handed out. There is no restriction on the use of AI tools (eg. ChatGPT) in this course.

### **Midterm Policy**

- No makeup midterms
- If you miss a midterm then the weight will be transferred to the final exam

### **Final Exam**

The final exam will be in-person as scheduled by the University during the exam period. Students are not to make travel plans during the exam period as that is not a valid reason for missing a final exam.

### **Deferred Finals**

Students who do not write the final examination because of illness or other circumstances beyond their control may apply for to write a deferred final examination by contacting the Registrar's Office no later than three working days after the original final examination was scheduled. In the event that a student writes a deferred examination, the deferred examination will carry the same weight as the final examination in determining the course grade. Any deferred examination will not be identical to the original final examination.

### **Carleton Policies**

You are responsible for reading and knowing the information about plagiarism, Carleton University resources, and academic accommodations found [HERE](#).