



ECON 5022 F - Fall 2024
Economic Theory for Financial Analysis

Instructor: Professor [Hashmat Khan](#)

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Office Location: See Brightspace course page for location

Office Hours: Thursday, 1pm – 2pm, or by appointment.

Course Delivery: In-Person (see Brightspace course page for location)

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

Brightspace Course Page: [Here](#).

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, growth and business cycles, monetary and fiscal policy.

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

Learning Outcomes

Be able to:

- Understand microeconomic foundations, concepts, and models for macroeconomic and financial analysis
- Optimizing consumer and firm behaviour
- 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, market frictions, economic growth, and business cycles
- Understand how monetary and fiscal policies interact with financial markets in determining aggregate outcomes

Preclusions and Prerequisites

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

Class Schedule

- September 10th Introduction and course overview
Measurement – National Accounts
Economic Theory – Microfoundations
What factors determine demand and supply for a good or service?
Decision-making – static considerations
Optimization
- Consumer optimization
 - Firm optimization
 - Labour demand and supply
- Concept of Equilibrium
- September 17th Decision-making – dynamic considerations
- Saving & spending decisions,
 - Capital-investment decisions
 - Risk, uncertainty, and expectations
 - Complete vs incomplete markets
- September 24th Private businesses and market structures
- Perfect competition
 - Monopoly - *'single seller'*
 - Monopsony - *'single buyer'*
 - Duopoly/Oligopoly – *'two or a small number of sellers'* – strategic interactions
 - Game-theoretic considerations
Static/Dynamic
Collusion/cooperation as business strategies
- October 1st Financial frictions, information and commitment problems in financial and housing markets
- Theoretical framework
 - Examples
- October 8th Stock market and asset-pricing
- Bond Valuation – the Present Value Approach
 - Risk and Returns
 - Consumption-Based Capital Asset Pricing Model (C-CAPM)
 - Equity Premium in stock markets
- October 15th Optimal portfolio analysis
Measuring intensity of risk aversion
- Midterm review**
- October 29th **Midterm Exam**

- November 5th Economic growth
- Measurement
 - Neoclassical theory – Exogenous growth
 - Modern theory – Endogenous growth
 - Labour productivity
- November 12th Business cycles
- Key stylized facts
 - Sources (shocks)
 - Propagation (‘boom-bust cycles’)
 - Unemployment
- November 19th Monetary policy
- Output-inflation trade-off
 - Central bank objectives
 - Interest rates and inflation
 - Conventional and unconventional monetary policy
 - Term structure of interest rates – the yield curve
- November 26th The *3-Equation New Keynesian model*
- Modern version of the “IS/LM” model
 - Connects inflation, output, interest rates
 - Role of expectations about the future
 - A canonical framework to think about short-run dynamics and macroeconomic stabilization policies
- December 3rd Fiscal policy
- Government budget constraint
 - Deficit vs Debt
 - Automatic stabilizers
 - Fiscal policy design
 - Government spending multiplier

Evaluation

Exam	Date	Mode of Delivery	Percentage of Grade
Mid-term	October 29, 2024	In-person	35%
Final Exam (cumulative)	TBD	In-person	65%
			Total: 100%

There is no required textbook for the course. 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.

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. Brief review of the correct and complete answers will be provided in the class.

AI use policy: 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 for any valid reason, then the weight will be transferred to the final exam
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Final Exam

The final exam will be in-person as scheduled by the University during the exam period. Students should not 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](#).