PLEASE NOTE THAT CHANGES MAY BE MADE TO THIS COURSE OUTLINE UP TO SEPTEMBER 19, 2017

CARLETON UNIVERSITY
DEPARTMENT OF ECONOMICS

ECON 5051 F
ASSET PRICING
(FINANCIAL THEORY I)

Professor M. Demers 2017 Fall
Loeb B-855
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Office Hours: Mondays 12:30 PM-2:30 PM and by appointment.

Lectures: Wednesdays: 11:35 PM – 2:25 PM
Place: CO 212.

Course objectives:

1. To survey the financial economics literature on some of the most important issues in portfolio choice and in the pricing of financial assets.
2. To initiate students to work with models in finance.

Textbooks:


**Readings and assignments:**

Specific readings will be assigned in class. Additional readings that are not on this course outline may also be assigned. Problems for practice will be given during the term. You are strongly encouraged to do those.

**Topics:**

1. **Introduction**
   - Time, risk and finance
   - Finance and growth
   - Issues in asset pricing

   Danthine and Donaldson ch 1 and 2.
   Copeland ch 1, 2.
   Benninga ch 1.

2. **Risk, risk aversion and portfolio choice**
   - Making choices in risky situations
   - Measuring risk and risk aversion
   - Risk, risk aversion and investment decisions: expected utility theory
   - Risk, risk aversion and investment decisions: modern portfolio theory

   Back ch 1, 2, 5
   Benninga ch 8, 9, 10, 12.
   Copeland ch 3, 4, 5.
   Danthine and Donaldson ch 3-6 (2nd ed), ch 3-6 (3rd ed)
   Huang and Litzenberger ch 1-3.
   Ingersoll ch 1, 5.

3. **Equilibrium pricing and arbitrage pricing**
   - Capital asset pricing model
   - Arrow Debreu pricing
   - Consumption capital asset pricing model
   - Arbitrage pricing theory (APT)
   - Martingale pricing theory risk neutral valuation

   Back ch 3, 4, 6, 12
   Benninga ch 11, 16, 17, 19
   Copeland ch 6
   Danthine and Donaldson ch 7-13 (2nd ed), ch 8-14 (3rd ed)
4. Market efficiency, information, financial market anomalies (exact coverage will depend on available time)

- The efficient markets hypothesis
- Information aggregation and revelation
- Financial market anomalies
- Financial market volatility
- Learning

Copeland ch 10-11.
Benninga ch 14.
Danthine and Donaldson ch 16 (2nd ed) or ch 18 (3rd ed)
Andrei Shleifer, ch 1-4.

Course evaluation:

The course evaluation will be as follows:
Mid-term exam: 40% October 18, 2017
Final exam formally scheduled during the examination period: 60%.

Course Requirements:

Students who miss a midterm for a valid reason (for example, documented with a doctor's note) will have its weight transferred to the final exam. Otherwise, a grade of 0 will be assigned.

Re-marking:

Any request for remarking must be submitted in writing within two weeks of that piece of work first being returned to the class. The request should contain a detailed explanation of why you feel you should receive a higher mark. Please note that remarking will apply to the entire work not just the contentious issue. As a result, the revised mark may be higher than, lower than or the same as the original mark.

Academic Accommodation Requests:

You may need special arrangements to meet your academic obligations during the term.

For an accommodation request the processes are as follows:
**Pregnancy obligation:** write to me with any requests for academic accommodation during the first two weeks of class, or as soon as possible after the need for accommodation is known to exist. For more details see the Student Guide.

**Religious obligation:** write to me with any requests for academic accommodation during the first two weeks of class, or as soon as possible after the need for accommodation is known to exist. For more details see the Student Guide.

**Academic Accommodations for Students with Disabilities:** The Paul Menton Centre for Students with Disabilities (PMC) provides services to students with Learning Disabilities (LD), psychiatric/mental health disabilities, Attention Deficit Hyperactivity Disorder (ADHD), Autism Spectrum Disorders (ASD), chronic medical conditions, and impairments in mobility, hearing, and vision. If you have a disability requiring academic accommodations in this course, please contact PMC at 613-520-6608 or pmc@carleton.ca for a formal evaluation. If you are already registered with the PMC, contact your PMC coordinator to send me your Letter of Accommodation at the beginning of the term, and no later than two weeks before the first in-class scheduled test or exam requiring accommodation (if applicable). After requesting accommodation from PMC, meet with me to ensure accommodation arrangements are made. Please consult the PMC website for the deadline to request accommodations for the formally scheduled exam (if applicable).

See the Equity Services Web site at [www.carleton.ca/equity/accommodation](http://www.carleton.ca/equity/accommodation) to obtain more detailed information on academic accommodation to view the associated policies.

**Plagiarism:**

Please be aware that plagiarism is a serious offence at Carleton and should be recognized and avoided. For further information on how to do so, please see “Pammett on Plagiarism and Paraphrasing” at [www.carleton.ca/economics/courses/writing-preliminaries](http://www.carleton.ca/economics/courses/writing-preliminaries).

The University Senate defines plagiarism as “*presenting, whether intentionally or not, the ideas, expression of ideas or work of others as one’s own.*” This can include:

- reproducing or paraphrasing portions of someone else’s published or unpublished material, regardless of the source, and presenting these as one’s own without proper citation or reference to the original source;
- submitting a take-home examination, essay, laboratory report or other assignment written, in whole or in part, by someone else;
- using ideas or direct, verbatim quotations, or paraphrased material, concepts, or ideas without appropriate acknowledgment in any academic assignment;
- using another’s data or research findings;
- failing to acknowledge sources through the use of proper citations when using another’s works and/or failing to use quotation marks;
- handing in “substantially the same piece of work for academic credit more than once without prior written permission of the course instructor in which the submission occurs.”

Plagiarism is a serious offence that cannot be resolved directly by the course’s instructor. The Associate Dean of the Faculty conducts a rigorous investigation, including an interview with the student, when an instructor suspects a piece of work has been plagiarized. Penalties are not trivial. They can include a final grade of “F” for the course.