

Introduction to Asset Pricing Theory

This course introduces students to the theory of financial asset markets. The focus will be on theories of pricing of assets such as stocks, bonds and derivatives. The course develops theories of investors' behavior in financial markets and builds from this foundation to a theory of equilibrium asset prices and allocation of resources under risk.

Some aspects of the Financial Crisis of 2007-2009 such as asset pricing bubbles and the role of leverage constraints will be discussed in the second part of the course.

Course Outline:

1. Arbitrage and Valuation in Asset Markets.
2. Choice under Risk and Ambiguity.
3. Equilibrium Asset Prices and the Allocation Risk.
4. Mean-Variance Analysis of Asset Prices.
5. Dynamic Asset Markets: Equilibrium, Arbitrage and Asset Prices.
6. Asset Price Bubbles.
7. Leverage and Asset Prices.

Exams, Homework and Presentations:

There will be a final exam. Homework assignments will be regularly given. Students are encouraged to make in-class presentations of articles.

Textbook and Other Readings:

For parts 1-4 we will use textbook by Stephen LeRoy and Jan Werner, *Principles of Financial Economics*, Cambridge University Press, 2001.

A list of articles for parts 5-7 will be announced in class.

Course Schedule: Monday, Tuesday, Thursday, Friday.