

School of Economics and Finance

MOFI 306 SPECIAL TOPIC – FINANCIAL ECONOMICS

Trimester Two 2006

COURSE OUTLINE

Contact Details

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Class Times and Room Numbers

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|----------|------------------------------|---------|------------------|
| Lectures | Monday, Wednesday and Friday | RWW 501 | 11:30am-12:20pm. |
| Tutorial | Monday | RWW223 | 16.30-17.30pm |

(Tutorial information will be published on the course website at <http://blackboard.vuw.ac.nz>.)

The final exam for the course will be held during the final exam period (Thursday, 19 Oct. to Saturday, 11 Nov.).

Course Objectives

The course reflects the philosophy that there is an intimate connection between economics and finance, particularly in a world of incomplete markets.

The primary aim of MOFI 306 is to bridge the gap between undergraduate and honours-level study in economics and finance. It is intended for students who have an interest in pursuing honours-level study in economics and finance at VUW, which is why the prerequisite is grades of B or better in *both* ECON 201 (Microeconomics) *and* MOFI 201 (Finance).

Compared to the other 300-level MOFI papers, there will be a greater focus on underlying theoretical concepts and rather less on problem solving. The course will not be especially mathematically demanding. However, the material will be presented in a way that is much more abstract than most MOFI, and many ECON, students will have seen before.

Course Content

This is the first year we have taught this course, so at this stage we can only give an indication of the specific topics to be covered. We hope to cover a selection of topics from the following list:

1. **Static foundations (weeks 1-4):** The micro foundations of financial and economic general equilibrium that provides the basis for macro-finance and micro policies Examination of the distinction between complete and incomplete markets and the implications of this for the interaction of finance and economics. Consideration of consumer and producer choice, over assets and goods and the resulting formation of goods and asset prices: generally limiting attention to two-period static situations with exogenous uncertainty. Consideration of issues relating to choice under uncertainty, and involving acquisition of information (endogenous uncertainty).
2. **Price dynamics (weeks 5-8):** Basic model structure (modelling uncertainty and time, modelling investor preferences, trade and markets); information arrival (efficient markets hypothesis, Samuelson's hypothesis, storable commodities); arbitrage (arbitrage in theory, arbitrage in practice; equilibrium asset pricing (stochastic discount factors, systematic and unsystematic risk, equilibrium rates of return, speculative bubbles, present values).
3. **Extensions (weeks 9-12):** Production in a finance economy (sole proprietorships, partnerships, and corporations); monetary economy (real and nominal contracts, monetary equilibrium, and non-neutrality of monetary policy).

Expected Workload

The workload for MOFI 306 is intended to be similar to that for other 300-level ECON and MOFI courses. The total expected workload is 240 hours, comprising 20 hours per week.

Readings

There is no set text book for this course, but lecture notes will be provided and supplementary readings will be made available. The following books, which are held on closed reserve in the commerce library, may be useful:

Hirschliefer, Jack, and John G. Riley. 1992. *The Analytics of Uncertainty and Information*, Cambridge University Press.

Lengwiler, Yvan. 2004. *Microfoundations of Financial Economics: An Introduction to General Equilibrium Asset Pricing*, Princeton University Press.

Materials and Equipment

Non-programmable calculators will be allowed in the final examination.

Assessment Requirements

The final grade will be determined by three equally-weighted assignments (contributing 25% in total), a one-hour in-term test (contributing 25%), and a two-hour final exam (contributing 50%).

The assignment due dates are

- Assignment 1: 11:30am on Friday, August 11 (start of lecture 15).
- Assignment 2: 11:30am on Friday, September 22 (start of lecture 27).
- Assignment 3: 11:30am on Friday, October 13 (start of lecture 36).

The in-term test will be held at 6.30-7.30pm on Tuesday, September 5 in a room to be advised.

Penalties

Assignments handed in late will not be marked. If a satisfactory medical certificate is provided, the weight from the assignment will be shifted onto the other pieces of assessment; otherwise, the assignment score will be recorded as 0.

Mandatory Course Requirements

None.

Communication of Additional Information

Course documents and other information will be available on the course website at <http://blackboard.vuw.ac.nz>. Announcements will also be posted there.

Faculty of Commerce and Administration Offices

Railway West Wing (RWW) - FCA Student and Academic Services Office

The Faculty's Student and Academic Services Office is located on the ground and first floors of the Railway West Wing. The ground floor counter is the first point of contact for general enquiries and FCA forms. Student Administration Advisers are available to discuss course status and give further advice about FCA qualifications. To check for opening hours call the Student and Academic Services Office on (04) 463 5376.

Easterfield (EA) - FCA/Education/Law Kelburn Office

The Kelburn Campus Office for the Faculties of Commerce and Administration, Education and Law is situated in the Easterfield Building - it includes the ground floor reception desk (EA005) and offices 125a to 131 (Level 1). The office is available for the following:

- Duty tutors for student contact and advice.
- Information concerning administrative and academic matters.
- Forms for FCA Student and Academic Services (e.g. application for academic transcripts, requests for degree audit, COP requests).
- Examinations-related information during the examination period.

To check for opening hours call the Student and Academic Services Office on (04) 463 5376.

General University Policies and Statutes

Students should familiarise themselves with the University's policies and statutes, particularly the Assessment Statute, the Personal Courses of Study Statute, the Statute on Student Conduct and any statutes relating to the particular qualifications being studied; see the Victoria University Calendar available in hard copy or under 'About Victoria' on the VUW home page at www.vuw.ac.nz.

Student and Staff Conduct

The Statute on Student Conduct together with the Policy on Staff Conduct ensure that members of the University community are able to work, learn, study and participate in the academic and social aspects of the University's life in an atmosphere of safety and respect. The Statute on Student Conduct contains information on what conduct is prohibited and what steps are to be taken if there is a complaint. For information about complaint procedures under the Statute on Student Conduct, contact the Facilitator and Disputes Advisor or refer to the statute on the VUW policy website at www.vuw.ac.nz/policy/studentconduct. The Policy on Staff Conduct can be found on the VUW website at www.vuw.ac.nz/policy/staffconduct.

Academic Grievances

If you have any academic problems with your course you should talk to the tutor or lecturer concerned; class representatives may be able to help you in this. If you are not satisfied with the result of that meeting, see the Head of School or the relevant Associate Dean; VUWSA Education Coordinators are available to assist in this process. If, after trying the above channels, you are still unsatisfied, formal grievance procedures can be invoked. These are set out in the Academic Grievances Policy which is published on the VUW website at www.vuw.ac.nz/policy/academicgrievances.

Academic Integrity and Plagiarism

Academic integrity is about honesty – put simply it means **no cheating**. All members of the University community are responsible for upholding academic integrity, which means staff and students are expected to behave honestly, fairly and with respect for others at all times.

Plagiarism is a form of cheating which undermines academic integrity. The University defines plagiarism as follows:

The presentation of the work of another person or other persons as if it were one's own, whether intended or not. This includes published or unpublished work, material on the Internet and the work of other student or staff.

It is still plagiarism even if you re-structure the material or present it in your own style or words.

Note: It is however, perfectly acceptable to include the work of others as long as that is acknowledged by appropriate referencing.

Plagiarism is prohibited at Victoria and is not worth the risk. Any enrolled student found guilty of plagiarism will be subject to disciplinary procedures under the Statute on Student Conduct and may be penalised severely. Consequences of being found guilty of plagiarism can include:

- an oral or written warning
- cancellation of your mark for an assessment or a fail grade for the course
- suspension from the course or the University.

Find out more about plagiarism, and how to avoid it, on the University's website at www.vuw.ac.nz/home/studying/plagiarism.html.

Students with Impairments

The University has a policy of reasonable accommodation of the needs of students with disabilities. The policy aims to give students with disabilities the same opportunity as other students to demonstrate their abilities. If you have a disability, impairment or chronic medical condition (temporary, permanent or recurring) that may impact on your ability to participate, learn and/or achieve in lectures and tutorials or in meeting the course requirements, please contact the Course Coordinator as early in the course as possible. Alternatively you may wish to approach a Student Adviser from Disability Support Services (DSS) to discuss your individual needs and the available options and support on a confidential basis. DSS are located on Level 1, Robert Stout Building, telephone (04) 463 6070, email disability@vuw.ac.nz. The name of your School's Disability Liaison Person is in the relevant prospectus or can be obtained from the School Office or DSS.

Student Support

Staff at Victoria want students to have positive learning experiences at the University. Each Faculty has a designated staff member who can either help you directly if your academic progress is causing you concern, or quickly put you in contact with someone who can. Assistance for specific groups is also available from the Kaiwawao Māori, Manaaki Pihipihinga or Victoria International.

In addition, the Student Services Group (email student-services@vuw.ac.nz) is available to provide a variety of support and services. Find out more at www.vuw.ac.nz/st_services/.

VUWSA employs Education Coordinators who deal with academic problems and provide support, advice and advocacy services, as well as organising class representatives and Faculty delegates. The Education Office (tel. (04) 463 6983 or (04) 463 6984, email education@vuwsa.org.nz) is located on the ground floor, Student Union Building.

Manaaki Pihipihinga - Māori and Pacific Mentoring Programme (Faculty of Commerce and Administration)

This is a mentoring service for Māori and Pacific students studying at all levels. Weekly one hour sessions are held at the Kelburn and Pipitea Campuses in the Mentoring Rooms, 14 Kelburn Parade, and Room 210 and 211, Level 2, Railway West Wing. Sessions cover drafting and discussing assignments, essay writing, and any questions that may arise from tutorials and/or lectures. A computer suite networked to Cyber Commons is available for student use.

To register with Manaaki Pihipihinga, please contact one of the following:

Puawai Wereta
Room 210, Level 2
Railway West Wing
Tel. (04) 463 8997
Email: Puawai.Wereta@vuw.ac.nz

Fa'afai Seiuli
Room 109 B
14 Kelburn Parade
Tel. (04) 463 5842
Email: Faafoi.Seiuli@vuw.ac.nz