

School of Economics and Finance

MOFI 306 SPECIAL TOPIC – FINANCIAL ECONOMICS

Trimester Two 2007

COURSE OUTLINE

Contact Details

Graeme Guthrie (course coordinator)

Room RH 326

Tel. (04) 463-5763

Email: graeme.guthrie@vuw.ac.nz

Lewis Evans

Room RH 316

Tel. (04) 463-5560 or (0274) 545 053

Email: lew.evans@vuw.ac.nz

Toby Daghish

Room RH 309

Tel. (04) 463-5451

Email: toby.daghish@vuw.ac.nz

Class Times and Room Numbers

Lectures will be held on Monday, Wednesday and Thursday in room RWW 129 from 2.40-3:30pm. A single tutorial will be held each week at a time and place to be confirmed. (When the tutorial information is finalized it will be published at <http://blackboard.vuw.ac.nz>.)

The final exam for the course will be held during the final exam period (15 Oct. to 11 Nov.).

Course Objectives

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).

Course Content

The course reflects the philosophy that there is an intimate connection between economics and finance. These subjects use the same tools of analysis and assume the same conceptual

basis for individual behaviour and social benefit. In the presence of uncertainty and intertemporal decision-making, economics and finance become virtually one subject.

The course is divided into three interrelated parts. The first two parts develop the microeconomic foundations for financial and economic general equilibrium using a static model of the economy. The third part extends this development to economies in which time plays an important role.

- **Individual choice in a static world (GG, weeks 1-4):** A review of consumer theory. Individual decision-making under uncertainty, with applications to insurance and portfolio choice. Expected utility preferences, with applications to portfolio choice. Decision-making by firms, including the origins of the NPV rule and decision-making by firms with different ownership structures.
- **Equilibrium in a static world (LE, weeks 5-8):** A review of general equilibrium under certainty and uncertainty, including Pareto efficiency and Fisher separation. It will introduce complete and incomplete markets and the role of assets in the economy. It will examine equilibrium, arbitrage-free asset prices, the use of representative agents, stochastic discount factors, and the differences between systematic and unsystematic risk.
- **Equilibrium in a multi-period world (TD, weeks 9-12):** Basic model structure, including modelling uncertainty and time, modelling investor preferences, trade and markets. Information arrival, including the efficient markets hypothesis, Samuelson's hypothesis, and properties of storable commodities. Arbitrage, in theory and in practice. Equilibrium asset pricing in a multi-period setting, including stochastic discount factors, systematic and unsystematic risk, equilibrium rates of return, speculative bubbles, and present values.

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.

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 text. Lecture notes and key readings will be provided.

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 (covering the whole course and contributing 50%).

The assignment due dates are

- Assignment 1: 2:40pm on Thursday, August 10 (start of lecture 15).
- Assignment 2: 2:40pm on Thursday, September 20 (start of lecture 27).
- Assignment 3: 2:40pm on Thursday, October 11 (start of lecture 36).

The in-term test will be held at 6:30-7:30 pm on Tuesday, September 4, 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 or go to www.vuw.ac.nz/policy.

For information on the following topics, go to the Faculty's website www.vuw.ac.nz/fca under Important Information for Students:

- Academic Grievances
- Academic Integrity and Plagiarism
- Student and Staff Conduct
- Meeting the Needs of Students with Impairments
- Student Support

Manaaki Pihipihinga Programme

Manaaki Pihipihinga is an academic mentoring programme for undergraduate Māori and Pacific students in the Faculties of Commerce and Administration, and Humanities and Social Sciences. Sessions are held at the Kelburn and Pipitea Campuses in the Mentoring Rooms, 14 Kelburn Parade (back courtyard), Room 109D, and Room 210, Level 2, Railway West Wing. There is also a Pacific Support Coordinator who assists Pacific students by linking them to the services and support they need while studying at Victoria. Another feature of the programme is a support network for Postgraduate students with links to Postgraduate workshops and activities around Campus.

For further information, or to register with the programme, email manaaki-pihipihinga-programme@vuw.ac.nz or phone (04) 463 5233 ext. 8977. To contact the Pacific Support Coordinator, email pacific-support-coord@vuw.ac.nz or phone (04) 463 5842.