

School of Economics and Finance

## **MOFI 306 SPECIAL TOPIC: FINANCIAL ECONOMICS**

Trimester Two 2009

### **COURSE OUTLINE**

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#### **Names and Contact Details**

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#### **Trimester Dates**

Teaching Period: Monday, July 13 to Friday, October 16  
End of Year Study Period: Monday, October 19 to Monday, October 26  
Examination Period: Tuesday, October 17 to Saturday, November 14

*Note: Students who enrol in courses with examinations should be able to attend an examination at the University at any time during the formal examination period.*

**Withdrawal dates:** Information available via

<http://www.victoria.ac.nz/home/admisenrol/payments/withdrawlsrefunds.aspx>

#### **Class Times and Room Numbers**

Lectures will be held on Monday, Tuesday and Friday in room RWW 127 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>.)

#### **Course Content**

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).

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 (GG, 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.

### **Course Learning Objectives**

By the end of this course, students should be able to:

- use and be familiar with tools and the rigorous application of concepts in finance at an advanced undergraduate level
- explain and apply economic models of individual choice in a static world with uncertainty
- explain and apply economic models of equilibrium goods and asset markets in a static world
- explain and use economic models of equilibrium of goods and asset markets in a multi-period world
- explain and analyse the characteristics and implications of incomplete markets

### **Course Delivery**

Course delivery takes the form of 36 50-minute lectures and approximately 11 50-minute tutorials.

### **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 Friday, August 14 (start of lecture 15).
- Assignment 2: 2:40pm on Friday, September 25 (start of lecture 27).
- Assignment 3: 2:40pm on Friday, October 16 (start of lecture 36).

The in-term test will be held at 6:30-7:30 pm on Monday, September 7, in a room to be advised.

*Note: Your assessed work may also be used for quality assurance purposes, such as to assess the level of achievement of learning objectives as required for accreditation and audit purposes. The findings may be used to inform changes aimed at improving the quality of FCA programmes. All material used for such processes will be treated as confidential, and the outcome will not affect your grade for the course.*

## **Examinations**

The final examination for this course will be scheduled at some time during the period from Tuesday 27 October to Saturday 14 November 2009.

## **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.

## **For the following important information, follow the links provided:**

Academic Integrity and Plagiarism

<http://www.victoria.ac.nz/home/study/plagiarism.aspx>

General University Policies and Statutes

<http://www.victoria.ac.nz/home/about/policy/academic.aspx>

Faculty of Commerce and Administration Offices

<http://www.victoria.ac.nz/fca/studenthelp/Contactus.aspx>

Manaaki Pihipihinga Programme

[http://www.victoria.ac.nz/st\\_services/mentoring/](http://www.victoria.ac.nz/st_services/mentoring/)