

## Finance I: Discrete Asset Pricing Theory

### Outline of the course

The basic reference for the course are the notes (which will be downloadable at <http://www.hhs.se/personal/rodriguez/teaching.htm>). As optional references some chapters of the following books can be used:

Cochrane, J., 2001, *Asset Pricing*, Princeton University Press, Princeton, New Jersey.

Campbell, J. Y., A. W. Lo, and A. C. Mackinlay, 1997, *The Econometrics of Financial Markets*, Princeton University Press, Princeton, New Jersey.

Ingersoll, J.E., 1987, *Theory of Decision Financial Making*, Rowman & Littlefield Publishers, Savage Maryland.

LeRoy, S.F. and J. Werner, 2001, *Principles of Financial Economics*, Cambridge University Press, New York.

Huang, C. and R. Litzenberger, 1988, *Foundations for Financial Economics*, Elsevier Science Publishers, New York.

The final grade will be based on a final exam, although turning in problem set 4 is compulsory.

#### 1. A Simple Two-Period Economy: The Basics.

*Asset Pricing*: Chapters 1, 2, 3 and 4.

*Theory of Decision Financial Making*: Chapter 2.

*Principles of Financial Economics*: Chapters 1, 2 and 3.

#### 2. Mean-Variance Analysis

*Asset Pricing*: Chapter 5.

*The Econometrics of Financial Markets*: Chapter 5.

*Theory of Decision Financial Making*: Chapter 4.

*Foundations for Financial Economics*: Chapter 3.

Hansen, L.P. and S.F. Richard, 1987, "The Role of Conditioning Information in Deducing Testable Restrictions Implied by Dynamic Asset Pricing Models," *Econometrica* 55, 587-614.

Roll, R., 1977, "A Critique of the Asset Pricing Theory's Tests: Part 1," *Journal of Financial Economics*, 4, 129-176.

Hansen, L.P. and R. Jagannathan, 1991, "Implications of Security Market Data for Models of Dynamic Economies," *Journal of Political Economy* 99, 225-262.

3. Beyond Mean and Variance.

*Asset Pricing*: Chapters 6 and 7.

*Theory of Decision Financial Making*: Chapter 5, 6, 8 and 9.

*Foundations for Financial Economics*: Chapter 3.

4. Intertemporal Models: The Basics.

*Asset Pricing*: Chapter 8 and 9.

*Theory of Decision Financial Making*: Chapter 10.

*Foundations for Financial Economics*: Chapter 7.

Hansen, L.P. and S.F. Richard, 1987, "The Role of Conditioning Information in Deducing Testable Restrictions Implied by Dynamic Asset Pricing Models," *Econometrica* 55, 587-614.

5. Consumption-Based Models and the Equity Premium Puzzle.

*Asset Pricing*: Chapter 9 and 21.

*Theory of Decision Financial Making*: Chapter 11.

Ferson, W.E., 1995, "Theory and Empirical Testing of Asset Pricing Models", in R. A. Jarrow, V. Maksimovic, and W.T. Ziemba (eds.), *Handbooks in OR & MS, Vol. 9, Finance*, Elsevier Science B.V., Amsterdam.

Kocherlakota, N.R., 1990, "The Equity Premium: It's Still a Puzzle", *Journal of Economic Literature*, 34, 42-71.

Mehra, R. and E. Prescott, 1985, "The Equity Premium Puzzle", *Journal of Monetary Economics* 15, 145-161.

Campbell, John Y., 2001, "Asset Pricing at the Millennium", *Journal of finance* 55, 1515-1567.