Asset Pricing(HON109) University of International Business and Economics

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Syllabus

Course Description:

This course provides some of the tools necessary to approach the asset pricing literature, both theoretical and empirical, from a modern perspective. To different degrees, these tools are all related to the basic notion of no-arbitrage. We first defined the basic notation and definitions of a discrete-time stochastic security market, in the general case in which the support of prices and dividends is not restricted to be finite. We then formalize the intuitive notion of no-arbitrage from different perspectives, and we show how these formalizations lead to the characterization of no-arbitrage in terms of linear pricing rules, of stochastic discount factors, and of equivalent martingale measures. We then go on to relate the characterization of no arbitrage to the work horses of finance theory, i.e. the mean variance frontier and linear factor models. This course should also allow the students both to make a natural transition to the study of asset pricing in continuous-time, and as a foundation for advanced courses in empirical asset pricing and corporate finance.

Course Materials:

The course will follow most closely my lecture notes, which I will hand out in class. The following two required texts provide important supplementary reading.

- **Required Texts**:
  - Stephen F. LeRoy and Jan Werner, *Principles of Financial Economics*, Cambridge University Press, 2001. (**LW**)
  - Chi-Fu Huang and Robert H. Litzenberger, *Foundations for Financial Economics*, Prentice-Hall, 1988. (**HL**)
- **Recommended References:**
  - John E. Ingersoll, Jr., *Theory of Financial Decision Making*, Rowman and Littlefield, 1987. (**I**)