

# 040638 EK: Principles of Finance (4 SSt)

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<b>Office hours:</b>	Wed, 11:00-12:00, Room 129 (AE 8, 2nd floor, staircase 2)
<b>Time and Place:</b>	Tue 12:00-13:30, HS 2 (BWZ) Tue 15:00-16.30, HS 2 (BWZ)
<b>Registration:</b>	UNIVIS online
<b>First meeting:</b>	04.10.2011
<b>Mid-term Exam:</b>	Tue, 22.11.2011, 12:00-14:00, HS 2 (BWZ)
<b>Final Exam:</b>	Tue, 31.01.2011, 12:00-14:00, HS 2 (BWZ)

## Overview:

This course is an introduction into the basics of financial markets on a **graduate level**. It covers individual decisions under uncertainty, optimal portfolio choice and optimal hedging against risk with the help of financial instruments such as derivatives (options, futures, swaps etc.). It also covers the pricing of financial securities in competitive markets, both under conditions of symmetric information across markets participants and under conditions of asymmetric information.

This course is the introductory course for all finance specializations (Kernfachkombinationen): [Corporate Finance](#), [Financial Services](#) (Finanzdienstleistungen) and [Financial Markets](#).

## Prerequisites:

A good knowledge in microeconomics is required, in particular basic knowledge of financial markets and market equilibrium as well as basic knowledge in decision theory.

Given that financial assets are characterized as random variables, basic prior knowledge in statistics and probability theory is indispensable. Knowledge of econometrics may be useful for applying and testing financial theories on real world data.

Bachelor students must have successfully completed:

- Finance (EK + VK ABWL Finanzwirtschaft)
- Microeconomics (Mikroökonomie)
- Quantitative Methods for Business Decisions (Quantitative Methoden der Betriebswirtschaftslehre)
- Mathematics for business students (Wirtschaftsmathematik I + II)
- Statistics for business students (Wirtschaftsstatistik I + II)

## Contents:

1. Introduction
  - The Role of Financial Markets
  - Financial Systems: Markets versus Institutions
  - Example: intertemporal risk-sharing
2. Decisions under Uncertainty
  - Expected Utility
  - Behavioural Anomalies
3. Basic Models of Financial Markets and Portfolio Choice
4. Asset Pricing
  - Arbitrage Pricing
  - Equilibrium Pricing
  - Anomalies

5. Information and Risk
  - Adverse Selection
  - Moral hazard
  - Delegated Investment Decisions
6. Asset Pricing with Asymmetric Information
  - Informational Efficiency Partial Revelation
  - Insider Trading
  - Bid-Ask Spreads
  - Market Liquidity
  - LAPM
  - Herding

### Literature:

- Allen, F. and D. Gale, *Comparing Financial Systems*, MIT-Press, 2000, chapters 1-4, 6.
- Eeckhoudt, L., C. Gollier, H. Schlesinger, *Economic and Financial Decisions under Risk*, 2005, Princeton University Press.
- Harper, I. and J. Eichberger, *Financial Economics*, Oxford University Press, 1997, especially chapters 1 and 2.1, 2.2, 3, 4 and 5.
- Huang, C. and R. H. Litzenberger, *Foundations for Financial Economics*, Elsevier Science Publishing Co., New York, 1988.

For additional recommended literature please see the course webpage and the slides.

### Grading:

Because of the immanent nature of the examination process personal attendance is required. Since exercise sessions will be interwoven with lectures it is natural that you need to attend both to keep on top of things.

Grading will consist of two exams and your contributions, both in assignments and in class:

1. Class participation and Exercises: 10% (depending on the number of students)  
You have to "tick" at least 50% of the problems.  
If you tick a problem and it turns out that you have not prepared for it or that you are not even present when the problem is to be discussed all ticked problems for the lecture will be cancelled.
2. Mid-term and Final Exam: 90% (equally weighted)

### eLearning (<https://moodle.univie.ac.at>):

Please find additional material for the course at the e-learning platform **Moodle** of the University of Vienna. I also hope to encourage communication among students and between students and me by using the platform. All students who sign the list of participants in the first lecture and have a valid u:net-Account will be registered for the e-learning course, if they are registered for the course at Univis.