

040638 EK: Principles of Finance (8 ECTS)

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Office hours:	Mon, 15:00-16:00, Room 129 (AE 8, 2nd floor, staircase 2)
Time and Place:	Tue 12:00-13:30, HS 2 (BWZ) Tue 15:00-16.30, HS 2 (BWZ) Wed 14:30–16:00, HS 1 (BWZ)
Registration:	UNIVIS online
First meeting:	02.10.2012
Mid-term Exam:	Wed, 07.11.2012, 14:00-16:00, HS 1 (BWZ)
Final Exam:	Tue, 11.12.2012, 14:30-16:30, HS 1 (BWZ)

Overview:

This course is an introduction to 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 BWL)
- Mathematics for business students (Wirtschaftsmathematik I + II)
- Statistics for business students (Wirtschaftsstatistik I + II)

Contents:

1. Introduction
 - Financial Systems
 - A Simple Example of Incomplete Risk-Sharing
2. Financial Decisions and the Theory of Choice
3. Decisions under Uncertainty (Risk)
4. Optimal Portfolio Selection and Risk Diversification: Mean-Variance Approach
5. Market Equilibrium in the Mean-Variance Framework: CAPM
6. Two-Period Model: State-Preference Approach
7. No-Arbitrage Principle and the Fundamental Theorem of Asset Prices
8. Consumption-Based Asset Pricing Model and Financial Markets Equilibri
9. Application of Arbitrage Pricing in a Multiperiod Model: Valuation of Options
10. Information Asymmetries on Financial Markets
11. Risk and Information

Literature:

- Hens, T. and M.O. Rieger, *Financial Economics A Concise Introduction to Classical and Behavioral Finance*, Springer, 2010.
- 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.

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%
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.