



APPLIES TO ACADEMIC YEAR 2015/2016

GRA 6543 Introduction to Asset Pricing

Programme

Master of Science in Business, Master of Science in Business (Finance), Master of Science in Financial Economics, Specialization Course

Responsible for the course

Håkon Tretvoll

Department

Department of Financial Economics

Term

According to study plan

ECTS Credits

6

Language of instruction

English

Introduction

The course provides an introduction to financial economics at the MSc level. The course will begin by introducing asset pricing theory. The classical results in portfolio selection and asset pricing theory with the mean-variance paradigm are presented. These results will be challenged and thus further theoretical developments based in the Arbitrage Pricing Theory and Consumption CAPM will be considered. Issues in market efficiency and behavioral finance will be discussed. Finally, application of the theory to option pricing will be considered. This course will provide students with an understanding of the underlying theories used in other courses and some of the empirical approaches to testing these theories.

Learning outcome

Acquired knowledge

After taking the course, the students shall understand how economists build economic models of asset prices, what the key implications and predictions of these models are and how they help us to understand why and how asset prices move. Furthermore, student should know how to test asset pricing models and interpret tests of asset pricing models using real world data.

- Examples of concepts that students shall be able to explain: utility maximization, optimal investment and consumption decisions, risk aversion, decision making under risk, choices between risky alternatives, choices between risk free and risk alternatives, optimal portfolio allocation, determination of expected returns, risk-neutral pricing, and market efficiency.

Acquired skills

After taking the course, the students shall be able to (a) apply knowledge (i.e. concepts and skills) in analyses and discussions on problems that arise in decision making in the presence of risk. Examples:

- Optimal choices under risk
- Pricing financial assets

Reflection

After taking the course, the students shall be able to ask critical questions and reflect on crucial assumptions and theories within the field of asset pricing.

Prerequisites

All courses in the Masters programme will assume that students have fulfilled the admission requirements for the programme. In addition, courses in second, third and/or fourth semester can have specific prerequisites and will assume that students have followed normal study progression. For double degree and exchange students, please note that equivalent courses are accepted.

Compulsory reading

Books:

Bodie, Zvi, Alex Kane, Alan J. Marcus. 2014. Investments. 10th ed., global ed. McGraw-Hill Education
Copeland, Thomas E., J. Fred Weston and Kuldeep Shastri. 2013. Financial theory and corporate policy. 4th rev. ed. Pearson Addison-Wesley

Other:

During the course there may be hand-outs and other material on additional topics relevant for the course and the

examination.

Recommended reading

Books:

Copeland, Thomas E., J. Fred Weston and Kuldeep Shastri. 2005. Student Solutions Manual for Financial Theory and Corporate Policy. 4th ed. Pearson Addison-Wesley

Course outline

1. Arbitrage and Optimality
 - a) Consumption and investment decisions
 - b) Utility theory given uncertainty
 - c) State preference theory
2. Asset Pricing
 - a) Portfolio theory
 - b) The Capital Asset Pricing Model
 - c) The Arbitrage Pricing Theory
 - d) Risk-Neutral Valuation
 - e) The Consumption CAPM
3. Market Efficiency
 - a) Active vs. Passive Management
 - b) Behavioral Finance
4. Derivative Pricing

Computer-based tools

Learning process and workload

A course of 6 ECTS credits corresponds to a workload of 160-180 hours. The instruction consists of 36 lecture hours. The remainder of the workload is allocated to the student to work on the readings provided in class.

Please note that while attendance is not compulsory in all courses, it is the student's own responsibility to obtain any information provided in class that is not included on the course homepage/It's learning or text book.

Examination

Two hour mid-term exam -30%

Three hour final exam - 70%.

Form of assessment	Weight	Group size
Written examination 2 hours	30%	
Written examination 3 hours	70%	

Specific information regarding student assessment will be provided in class. This information may be relevant to requirements for term papers or other hand-ins, and/or where class participation can be one of several components of the overall assessment. All parts of the assessment must be passed in order to get a grade in the course.

Examination code(s)

GRA 65432 2-hours written mid-term examination accounts for 30% of the final grade in the course GRA 6543

GRA 65433 final 3-hours written examination accounts for 70% of the final grade in the course GRA 6543

Both parts of the evaluation must be passed in order to get a grade in the course.

Examination support materials

BI approved exam calculator

Bilingual dictionary

Permitted examination support materials for written examinations are detailed under examination information in the student portal @bi. The section on support materials and the use of calculators and dictionaries should be paid special attention to.

Re-sit examination

It is only possible to retake an examination when the course is next taught. The assessment in some courses is based on more than one exam code. Where this is the case, you may retake only the assessed components of

one of these exam codes. All retaken examinations will incur an additional fee. Please note that you need to retake the latest version of the course with updated course literature and assessment. Please make sure that you have familiarised yourself with the latest course description.

Additional information

Honor Code

Academic honesty and trust are important to all of us as individuals, and represent values that are encouraged and promoted by the honor code system. This is a most significant university tradition. Students are responsible for familiarizing themselves with the ideals of the honor code system, to which the faculty are also deeply committed.

Any violation of the honor code will be dealt with in accordance with BI's procedures for cheating. These issues are a serious matter to everyone associated with the programs at BI and are at the heart of the honor code and academic integrity. If you have any questions about your responsibilities under the honor code, please ask.