Bavarian Graduate Program in Economics
19–24 March, 2012

Financial Economics

Jan Werner
University of Minnesota

The course is intended to provide students with foundations for the study of financial economics. The first part of the course will be concerned with two-period models of asset markets. We will discuss basic theories of investor's behavior, competitive equilibrium in asset markets, and pricing of assets. The discussion will be primarily based on the textbook. The second part of the course will focus on dynamic models of asset markets, and, in particular, on asset price bubbles and speculative trade.

Some aspects of the Financial Crisis of 2007-2009 will be discussed, as well. In popular opinion, one of the causes of the crisis was bursting of the "bubble" in housing market in the US. Basic asset pricing theory says that price bubbles are rare and unlikely. We will re-examine this finding.

The required **textbook** for the course is:
Principles of Financial Economics, by Stephen LeRoy and Jan Werner,
Cambridge University Press, 1st Ed. (2001), 2nd Ed. (in press).

Course Outline:

1. Arbitrage and Valuation in Asset Markets.
2. Choice under Risk and Ambiguity.
3. Equilibrium Prices and Allocations in Asset Markets.
4. Mean-Variance Analysis and the Capital Asset Pricing Model.
5. Factor Models of Asset Pricing.
6. Dynamic Asset Markets: Equilibrium, Arbitrage, and Asset Pricing.
7. Price Bubbles and Speculation in Asset Markets.

Course Website: www.econ.umn.edu/∼jwerner

E-mail: jwerner@umn.edu