
ASSET PRICING

(24 Hours)

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SYNOPSIS

This course is an introduction to the modern theory of asset pricing and portfolio theory. It develops foundations for more specialized courses on securities valuation (e.g., derivatives pricing, continuous time finance, empirical estimation of asset pricing models, market microstructure, limits to arbitrage, behavioral finance etc...). Topics covered include (i) CAPM, mean-variance analysis, CCAPM, Arrow-Debreu pricing, factor pricing, arbitrage, (ii) pricing anomalies, (iii) asymmetric information and asset pricing, and (iv) liquidity and asset pricing.

COURSE OVERVIEW

Part 1: Economic Foundations

- Arrow-Debreu model
- Risk sharing
- Stochastic Discount Factor and risk neutral probabilities
- Consumption based asset pricing

Part 2: Mean-variance analysis and the CAPM

- Efficient frontier
- Sharpe ratios
- CAPM

Part 3: Factor Pricing Models and Pricing Anomalies

- Factor pricing models
- Pricing anomalies and alphas
- Liquidity and asset prices

Part 4: Intertemporal models

- Present value relationships
- Excess volatility
- Asset pricing puzzles

Part 5: Asymmetric Information and Liquidity

- Rational expectations equilibria
- Adverse selection and liquidity
- Value of information in securities markets
- Liquidity and asset prices

KEY TOPICS AND LEARNING OUTCOMES

Knowledge of

- Economics of asset pricing models
- Foundations of main asset pricing models
- Factor pricing models and their interpretation
- Effects of asymmetric information on asset prices and the notion of price informativeness

ASSESSMENT

Take home assignments (40%) and final exam (60%).

AUDITING

Accepted

Students auditing the course must decide after the third session whether they want to take the final exam or not. They must also hand out assignments.