ASSET PRICING

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| Course code | *GRAE021* |
| Compulsory in the programmes | *Financial Economics* |
| Level of studies | *Graduate* |
| Number of credits | *6 ECTS (36 contact hours + 2 consultation hours, 124 individual work hours)* |
| Course coordinator (title and name) | *Assoc. Prof. Dr. Silviu Ursu*  [*silurs@faculty.ism.lt*](mailto:silurs@faculty.ism.lt) |
| Prerequisites | *None* |
| Language of instruction | *English* |

**THE AIM OF THE COURSE:**

This introductory course aims to provide you with an understanding of the theoretical and, *mainly,* practical aspects of the financial markets and the **pricing of financial instruments**. We will take an ***applied perspective*** on various relevant topics, such as risk, diversification, interest rates, valuation theories, derivative securities (futures, forwards, and options), risk management, efficient markets, and portfolio management. Topics are selected in accordance to the requirements of Chartered Financial Analyst (CFA) and Professional Risk Manager (PRM) world-leading certification for finance and risk management, so to offer the adequate preparation for CFA and PRM exams and for relevant positions in the finance industry, such as company analyst, financial analyst, corporate finance advisor, or private banker.

**MAPPING OF COURSE LEVEL LEARNING OUTCOMES (OBJECTIVES) WITH DEGREE LEVEL LEARNING OBJECTIVES (See Annex), ASSESMENT AND TEACHING METHODS**

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| --- | --- | --- | --- |
| Course level learning outcomes (objectives) | Degree level learning objectives (Number of LO) | Assessment methods | Teaching methods |
| CLO1. Describe in considerable depth the players, assets, terminology and conventions in financial markets | LO1.1. | Midterm, Final exam | Lectures |
| CLO2. Explain in considerable detail various portfolio theories as well as the risk-return tradeoff, efficient market hypothesis and behavioral finance | LO1.1.  LO3.2. | Midterm, Final exam, Group project | Lectures, seminars |
| CLO3. Describe in considerable depth and use CAPM and multi-factor asset pricing models | LO1.1.  LO3.2. | Midterm, Final exam, Group project | Lectures, seminars |
| CLO4. Understand how investors analyze and value different types of equity and debt securities | LO1.1.  LO3.2. | Final exam, Group project | Lectures, seminars |
| CLO5. Understand the pricing and valuation of forwards, futures, swaps and options | LO1.1. | Final exam | Lectures, seminars |

**ACADEMIC HONESTY AND INTEGRITY**

The ISM University of Management and Economics Code of Ethics, including cheating and plagiarism are fully applicable and will be strictly enforced in the course. Academic dishonesty, and cheating can and will lead to a report to the ISM Committee of Ethics. With regard to remote learning, ISM remind students that they are expected to adhere and maintain the same academic honesty and integrity that they would in a classroom setting.

**COURSE OUTLINE**

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| --- | --- | --- |
| **Topic** | **In-class hours** | **Readings** |
| **1. Introductory discussion**. Overview of financial services industry, financial markets, financial intermediaries and financial instruments. | 4 | CFA Institute Investment Foundations, Smart, Handouts |
| 2. Modern Portfolio Theory | 4 | CFA Institute Investment Foundations, Smart, Handouts |
| 3. Asset Pricing Models: Capital Asset Pricing Model (CAPM), Factor Models, Arbitrage Pricing Theory, Efficient Markets, Behavioural Finance | 8 | CFA Institute Investment Foundations, Smart, Handouts |
| **4. Review. Midterm**. | 4 |  |
| 5. Equity Securities Analysis | 4 | CFA Institute Investment Foundations, Smart, Handouts |
| 6. Debt Securities Analysis | 4 | CFA Institute Investment Foundations, Smart, Handouts |
| 7. Derivatives and Risk Management  **Review.** | 8 | CFA Institute Investment Foundations, Smart, Handouts |
|  | **Total: 36 hours** |  |
| CONSULTATIONS | 2 |  |
| FINAL EXAM | 2 |  |

**FINAL GRADE COMPOSITION**

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| --- | --- |
| **Type of assignment** | **%** |
| *Group Components* | ***20*** |
| Written Group Project | 20 |
| *Individual Components* | ***80*** |
| Midterm Test | 30 |
| Final Examination | 50 |
| **Total:** | **100** |

**DESCRIPTION AND GRADING CRITERIA OF EACH ASSIGNMENT**

**Examinations**

There will be two written examinations that count towards 30% (midterm test) and 50% (final exam) of the final grade. Both consists of multiple-choice questions and open questions (both theory and quantitative) and are closed book (students are allowed to bring calculators). The final exam will cover all topics discussed during the course with more weight on the topics covered after the midterm.

**Group work**

There will be one formal group work during the course that counts towards 20% of the final grade. Tasks (that will be given during the course) mustbe completed in a group up to 5 people. Each group turns in a single copy of its work with the names of all contributing members listed.

**RETAKE POLICY**

Students are allowed to retake the exam in order to pass. The retake exam is normally scheduled 1-2 weeks after the announcement of the final grades. The retake exam covers all course material and its weight is 80%. Group work cannot be rewritten / retaken but its evaluation (if positive) is not annulled.

**ADDITIONAL REMARKS**

Regular attendance and positive contributions to class are encouraged and rewarded. Consistent positive contributions will help you if you are on a grade border at the end of the course.

If for some reasons you need to miss a class, please notify the lecturer *beforehand*.

Please note, due to the travel/health regulations in place, some meetings may be held via MS Teams.

**REQUIRED READINGS**

- **CFA Institute Investment Foundations® Program** *Curriculum*, available at

<https://www.cfainstitute.org/en/programs/investment-foundations/curriculum/download>

**- Fundamentals of Investing**, 13/E (global edition). Scott B. Smart, Lawrence J. Gitman, and Michael D. Joehnk. Pearson International Edition, 2017.

**ADDITIONAL READINGS**

Articles and lecture notes as distributed during the class or via Intranet.

(Last updated: 2021 09 30)

**ANNEX**

**DEGREE LEVEL LEARNING OBJECTIVES**

**Learning objectives for Master of Social Science**

*Programme:*

*Financial Economics*

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| --- | --- |
| **Learning Goals** | **Learning Objectives** |
| Students will be critical thinkers | LO1.1. Students will be able to identify underlying assumptions, limitations of previous research; evaluate managerial solution alternatives. |
| LO1.2. Students will become **independent learners** and develop their own comprehension of scientific theories, models, and concepts. |
| Students will be socially responsible leaders | LO2.1. Students will be able to evaluate past and current practices in their discipline from an **ethical perspective**. |
| Students will be effective communicators | LO3.1. Students will develop and deliver a **coherent oral presentation**. |
| LO3.2. Students will develop and deliver a **coherent written research paper**. |