

Charles University  
Faculty of Social Sciences  
Institute of Economic Studies



**HANDBOOK**  
Financial Economics  
JEB120

Winter Semester  
Academic Year: 2023/2024

# 1 Contact, Communication & Materials

For any course related questions please contact lecturer:

- František Čech: frantisek.cech@fsv.cuni.cz

For information regarding homework please contact teaching assistant:

- Weizhi Sun: weizhi.sun@fsv.cuni.cz

Please always use specific subject of the email "**Financial Economics 2023-2024:**" and then continue with your problem.

**Example:** "*Financial Economics 2023-2024: Exam*" or "*Financial Economics 2023-2024: Midterm*"

All the course related materials will be published in the

- course web–page in the Student Information System:
  - <https://is.cuni.cz/studium/predmety/index.php?do=predmet&kod=JEB120>

## 2 Course schedule

The course consists of 11 lectures and 11 seminars. There is one lecture and one seminar taught (almost) each week.

- Lectures are held on Tuesday: 11:00 - 12:20, room 109.
- Seminars are held on Tuesday: 12:30 - 13:50, room 109.

## 3 Grading

In total, the student can obtain

- 15 pts - 3 homework assignments
- 30 pts - Midterm exam - **14.11.2023, 11:00-12:20, room 109**
- 50 pts - Final exam
- 5 pts - student can be awarded for active participation during lecture and exercise sessions

To pass the course students have the following necessary conditions:

- Obtain 50.5 or more points.
- Obtain 25 points or more from the final exam.

The final grade will be determined according to the following table:

Final Score	Grade
90.5 - 100	A
80.5 - 90	B
70.5 - 80	C
60.5 - 70	D
50.5 - 60	E
0 - 50	F

## 4 Examination planning

There will be only three dates to write the test in the examination period so that each student can exploit all three chances to pass the course. It is thus not advisable to wait until the last examination date.

The dates of the written examination are following:

- **9.1.2024; 11:00-12:30; room 109**
  - **register/deregister until 07.01.2024 23:59**
- **23.1.2024; 11:00-12:30; room 109**
  - **register/deregister until 21.01.2024 23:59**
- **30.1.2024; 11:00-12:30; room 109**
  - **register/deregister until 28.1.2024 23:59**

There will be also one term for the written examination before Christmas.

- **19.12.2023; 12:30-13:50; room 109**
  - **register/deregister until 17.12.2023 23:59**

### CAUTION:

Students must register for final exam in SIS.

During the midterm and final exam:

- students are allowed to use only a non-programmable calculator
- it is **strictly prohibited** to use electronic communication devices such as smart-phones or laptops
- it is **strictly prohibited** to use books, lecture notes, own notes etc.
- teamwork and/or the exchange of notes is strongly prohibited
- **any violation of the rules will result in 0 point from the test and the case will be reported to disciplinary commission of the faculty**

## 5 Homework, Midterm Exam, Final Exam

### Homework

There will be three homework in total where students are supposed to solve computational exercises. Students will have one week to solve the exercise – exact due date will be specified in the assignments. Group discussion in solving the assignment is encouraged, however, each student is supposed to write their own answers in their own words. **Note that not only numerical results (40%), but also verbal comments (40%) and appearance (20%)<sup>1</sup> are parts of evaluation.** The homework are subject to late penalties – 20% for the first day, 50% for the second day. Assignments are not accepted after the second day.

### Midterm Exam

Midterm Exam will be composed from topics covered up to the November 7, 2023 included.

### Final Exam

Final Exam will be composed from all topics covered during semester. The topics from Course Content section not covered during classes will **not be included** in the Final Exam.

## 6 Course Content

### Money and Monetary Institutions

- the evolution of money and its functions, money aggregates, the role of money in the short versus long run, time value of money

### Financial Markets, Financial Institutions, Banks and Banking

- comparison of real and financial assets, agents and clients of financial markets, the evolution of financial markets, market structure, ongoing trends (globalization, securitization, financial engineering, regulation, and liberalization)
- the role and evolution of banks, regulation of banks, the role and function of central banks, adverse selection and moral hazard in a lender-borrower relationship

### Financial Engineering and Financial instruments

- introduction of money markets, bond markets, equity securities, stock and bond market indexes, derivative markets, exchange-traded markets, over-the-counter markets, forward and future contracts, options, and arbitrage

#### → Fixed Income Securities

- bond characteristics, bond pricing, bond yields, yield curve, yield curve and future interest rates, interest rate structure

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<sup>1</sup>layout, readability - MS Word or L<sup>A</sup>T<sub>E</sub>X format is highly preferred

## → Options and Futures

- value of options, option strategies, option valuation, future contracts, trading mechanisms in futures contracts, future market strategies

## Security analysis

- macroeconomic and industry analysis, intrinsic value versus market price, financial statement analysis

## Portfolio Choice and Portfolio Management

- interest rates, risk and risk premium, real versus nominal risk, risk and risk aversion, systematic versus intrinsic risk, portfolio risk, optimal portfolio, portfolio diversification, mean-variance analysis, capital asset pricing models(CAPM), portfolio performance valuation, international diversification, the process of portfolio management

## Efficient Markets vs Behavioral Finance

- efficient market hypotheses, empirical challenges to efficient market hypotheses, the role of psychology in behavioral finance

## Bank Crisis and International Financial System

- causes of the current global banking crisis, shadow banks and the financial crisis of 2007-2008, the role of government in sustainable banking, foreign exchange markets and exchange rate regimes, international money and capital markets, growing interdependence of financial markets, sources of financial risks

**Note:** The instructor reserves the right to modify content of the course and will notify students accordingly.

## 7 Literature

- Bodie, Kane, Marcus: Investments. Tenth global edition, 2014
- Brealey, Myers and Allen: Principles of corporate finance. 10th edition, 2011
- Hubbard and O'Brien, Money, Banking, and the Financial System, International Edition, 2011
- Hull: Options, futures, and other derivatives. 6th edition, 2006
- Milne: The Fall of the House of Credit, 2009
- Mishkin: The economics of money, banking, and financial markets. Eleventh edition, global edition, 2016