University of St.Gallen

8,310: Asset Pricing

Subject information

ECTS-Credits: 4

Attached courses

Timetable	Language	Lecturer
8,310,1.00 Asset Pricing	**English**	**Fengler Matthias**

Course information

Course prerequisites

Good knowledge in mathematics, statistics , econometrics, micro-economics.

Course content

The objective of the class is to provide an introduction into the theory and empirical aspects of asset pricing. It covers the following topics: choices under uncertainty, discrete-time asset valuation, contingent claim valuation, mean variance analysis, capital asset pricing model, arbitrage pricing theory.

Course structure

1. Some basics of utility theory
2. Stochastic discount factor
3. Law of one price, arbitrage pricing, market completeness
4. Mean variance analysis
5. Factor pricing
6. Estimating and evaluating asset pricing models

Course literature

Core Books:

- Cochrane (2005): Asset Pricing, Revised Edition, Princeton University Press.
- Campbell, Lo, MacKinlay (1997): The Econometrics of Financial Markets, Princeton University Press.

Additional references:

- LeRoy, Werner (2001): Principles of Financial Economics, Cambridge University Press.
- Lengwiler (2004): Microfoundations of Financial Economics: An Introduction to General Equilibrium Asset Pricing. Princeton Series in Finance.
- John Cochrane, Financial markets and the real economy, downloadable from
- http://faculty.chicagobooth.edu/john.cochrane/research/papers/financial_and_real_proofs_aug_07.pdf

Somewhat elder, but still very useful books:

- Huang, Litzenberger (1988): Foundations for Financial Economics, Prentice Hall.
- Ingersoll (1987): The Theory of Financial Decision Making, Rowman & Littlefield.

Course additional information

Information about the Examination

Examination type

decentral - Group examination paper (20%)

Comment: 2-3 assignments as part of the self studies

Examination aids

Open Book

Examination aids may be used when needed. The following rules apply:

- All types of pocket calculators according to the «fact sheet concerning pocket calculators» are admissible.
- Any other EDP and electronic means of communication, such as notebooks, PDAs and mobile telephones, etc., are inadmissible.
- Communication with other people is inadmissible in open book examinations.
- All other examination aids are admissible.

- The procurement of examination aids (including pocket calculators) is exclusively the students' responsibility.

Question language: **English**
Answer language: **English**

central - Written examination (80%, 90 mins.)
Examination aids
Closed Book
The following rules apply to all examinations irrespective of requirements and use:

- A simple pocket calculator is admissible (for the definition of simple pocket calculators incapable of communication, cf. general regulations concerning examination aids of 14 December 2010 and note the "Pocket calculators" fact sheet). Any other EDP and electronic means of communication such as notebooks, PDAs and mobile telephones, etc., are inadmissible.
- A bilingual dictionary (without handwritten notes) may be used if the examination questions and/or answers are not in the candidate's native language. Electronic dictionaries are inadmissible.
- The procurement of these examination aids is exclusively the students' responsibility.
- No other examination aids are admissible.

Question language: **English**
Answer language: **English**

Examination content

Precise content of exam together with most relevant sources in the literature

- 1. Stochastic discount factor
  - a. C: 1-2
- 2. Some basics of utility theory
  - a. Utility theory -> Munk: 5, HL: 1
  - b. Habit formation -> C: 21.2
  - c. IES -> Lengwiler: 8.2.1-8.2.3
- 3. SDF and arbitrage free markets
  - a. C: 3-4
- 4. Mean variance analysis
  - a. C: 5
  - b. C: 4.3 (first part)
- 5. Discount factors, betas, and mv frontiers
  - a. C: 6-7
- 6. The multiple time period SDF
  - a. Hansen, Renault (2009)
- 7. Conditioning information
  - a. C: 8
- 8. Factor pricing
  - a. C: 9
- 9. Estimating and evaluating asset pricing models
  - a. C: 10-16

Exam-relevant literature

Lecture notes, supplements and assignments will be published by 27 May 2011 on studynet.

Further literature:

Core Books:

- C: Cochrane (2005): Asset Pricing, Revised Edition, Princeton University Press.
- Campbell, Lo, MacKinlay (1997): The Econometrics of Financial Markets, Princeton University Press.

Additional references:

- Hansen, Renault (2009). Pricing kernels and stochastic discount factors.
- LeRoy, Werner (2001): Principles of Financial Economics, Cambridge University Press.
- Lengwiler (2004): Microfoundations of Financial Economics: An Introduction to General Equilibrium Asset Pricing. Princeton Series in Finance.
- Munk (2009), Financial asset pricing theory,

Somewhat elder, but still very useful books:

- HL: Huang, Litzenberger (1988): Foundations for Financial Economics, Prentice Hall.
- Ingersoll (1987): The Theory of Financial Decision Making, Rowman & Littlefield.

Attention please:

We would like to point out to you that this fact sheet has absolute priority over other information such as StudyNet, faculty members' personal databases, information provided in lectures, etc.

When will the fact sheets become binding?
Information about courses: from the start of the bidding process on 27 January 2011
Information about decentral examinations: after the 4th semester week on 21 March 2011
Information about central examinations: from the start of the enrolment period for the examinations on 11 April 2011

Please look at the fact sheet once more after these deadlines have expired.

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