1. Course Overview

1.1 Objectives
This course aims to familiarize students with a variety of topics in modern finance. The emphasis is on theoretical research, with special emphasis on models using the tools and techniques. The first part of the course studies asset pricing. Topics include individual decision making under uncertainty, capital market equilibrium and asset valuation, arbitrage pricing theory, consumption CAPM and efficient market. The second part of the course discusses topics in corporate finance; including capital structure and financial contracting, dividend policy, institutions and financing with asymmetrically informed investors. Empirical research in these topics will be covered in more details in courses later.

The course is designed to be the first Ph. D. course for students in Finance, Economics, Accounting and other related fields.

1.2 Class Format and Assignments
This course is very fast-paced. Reading the relative chapter of the textbook and papers that will be covered before the class is encouraged. You are required to form presentation group of 2-3 persons and present a paper that interests you in the last day of the class.

There will be five to six problem sets which accounts for 40% of the course grade. In class presentation will be 20%. 40% of your course grade will be determined by your research proposal which is due on 12/9/2006.

1.3 References
Required:
**Foundations for Financial Economics, By Chi-fu Huang, Robert H. Lintzenberger, Prentice Hall. (HL)

Other Reference:
2. Course Outline and Reading List  **Denotes required readings**
The course syllabus is a general plan for the course; deviations announced to the class by
the instructor may be necessary.

2.1 First Part: Asset Pricing

Lecture 1 Tuesday August 21th
Utility Theory, Risk Aversion
**HL Ch.1, CWS Ch. 1, 3

Lecture 2 Tuesday August 28
Stochastic Dominance
**HL Ch.2 CWS Ch.3

Lecture 3 Tuesday Sep 4
Mean Variance Portfolio Analysis
**HL Ch.3 CWS, Ch. 5

Lecture 4 Tuesday Sep 11
Portfolio Separation Theorem and CAPM
**HL Ch.4
**Chapter 5, “The Capital Asset Pricing Model,” in Campbell, Lo, and MacKinlay, The
**CWS Ch.6

Reading list
Sharpe, W., 1964, Capital asset prices: a theory of capital market equilibrium under

Lecture 5 Tuesday Sep 18
Portfolio Separation Theorem and CAPM---Continued
Arbitrage Pricing Theory (APT)
**HL Ch. 3, 4


**Lecture 6 Tuesday Sep 25**

**Arbitrage Pricing Theory (APT)-----Continued**

**Options**

*Copeland/Weston, Chs. 8, 9.

*Huang and Litzenberger, Ch. 6


**Lecture 7, Tuesday Oct 2**

**Options--------Continued**

**The Efficient Market Hypothesis and Behavior Finance**

**CWS, Ch. 10, 11.**


Barberis, Shleifer and Vishny 'A model of investor sentiment' JFE, 1998 307-343


Sleifer and Vishny 1997, JF, 52,35-55 'the limits of arbitrage'

Lecture 8, Tuesday, Oct9


Tuesday Oct 16 presentation

2.2 Second Part: Corporate Finance

Capital Structure

**CWS, Chs. 12. 15.


Lecture 9, Tuesday Oct 23

**Capital Structure---Introduction**


**Capital Structure---Capital Structure under Adverse Selection**


Lecture 10, Tuesday Oct 30

**Capital Structure---Capital Structure under Adverse Selection(continued)**


Lecture 11, Tuesday Nov 6

**Capital Structure---Capital Structure under Adverse Selection**


**Capital Structure---Capital Structure & Financing Under Agency Costs**


**Dividend Policy**


**CWS Chs. 16.

**Miller, Merton, "Behavioral Rationality in Finance: The Case of Dividends," in *The


Lecture 12 Tuesday Nov 13

Dividend Policy---Introduction


Dividend Policy—Continued
Bhattacharya, Studipto (1979), The bell Journal of Economics, Vol. 10, 259-270

Lecture 13 Tuseday Nov 20
Dividend Policy—Continued

Financial Imperfections and Intermediation


Financial Imperfections and Intermediation reading list

Lecture 14 Tuesday Nov27
Financing with Asymmetrically Informed Investors


Lecture 15 Tuesday Dec 4  Presentations

**All academic work must meet the standards contained in "A Culture of Honesty." Students are responsible for informing themselves about those standards before performing any academic work.
The link to more detailed information about academic honesty can be found at:
http://www.uga.edu/ovpi/honesty/acadhon.htm