

EC554(B) FINANCIAL ECONOMICS

➤ Learning Objective and Outcomes

- Main purpose of this paper is to introduce and impart knowledge on financial economics.
- By studying this paper students are expected to know about - Introduction to Financial Economics, Money and Financial Markets, Risk and Investment Management, Theories Financial Trade Markets, Investment Analysis

Module I: Introduction to Financial Economics:

Financial System – Importance and Functions, Markets, Equilibrium in Financial Markets, Financial Intermediaries, New Developments, Micro Finance, -financial inclusion and inclusive growth - Financial Sector Reforms in India

Module II: Money and Financial Markets:

Time value of money – Time Lines and Notation, Future Value of a Single Amount, Present Value of a Single Amount, Future Value of an Annuity, Present Value of an Annuity, Present Value of a Perpetuity, Intra-year Compounding and Discounting. Financial Statement Analysis – Financial Statements, Financial Ratios, Du Pont Analysis, Standardized Financial Statements, Valuation of Bonds and Stocks — Bond yields, Bond market, Valuation of Preference Stock, Equity Valuation – Dividend Discount Model, The P/E Ratio Approach, The Relationship between Earning-Price Ratio, Expected Return and Growth.

Module III: Risk and Investment Management Theories:

Risk and Return – Risk and Return of a Single Asset, Risk and Return of a Portfolio, Measurement of Market Risk, Determination of Beta, Relationship between Risk and Return.
Portfolio Theory – Portfolio Risk, Markowitz Model, Capital Asset Pricing Model, Arbitrage Pricing Theory and Multifactor Models.

Module IV: Financial Trade Markets:

Derivatives Market: Options –Options and Their Payoffs just before Expiration, Factors Determining Option Values, Binomial Model for Option Valuation, Black-Scholes Model, Equity as a Call Option, Risky Debt and Options. Futures – Future Contracts, Financial Futures, Commodity Futures, Pricing of Future Contracts, Use of Future Contracts

Module V: Investment Analysis:

Portfolio Management – Definition of Portfolio Management – Passive Investment Management and Active Investment Management, Specification of Investment Objectives and Constraints, Selection of Asset Mix, Formulation of Portfolio Strategy, Selection of Securities, Portfolio Execution, Portfolio Revision, Performance Evaluation.

References:

Amencm, Noel and V´eronique Le Sourd, Portfolio Theory and Performance Analysis, John Wiley & Sons, Ltd. (UK), 2003.

Anthony Saunders, Anthony, and Marcia Millon Cornett, Financial Markets and Institutions, A modern Perspective, Tata Me Graw Hill.

Avadhani, V. A., Financial Economics-Theory and Practice - Millennium Ed., Himalaya Pub.

Bailey, E. Roy, The Economics of Financial Markets, Cambridge University Press, New York, 2005.

Baye, Michael and Dennis W Jansen, Money Banking and Financial Markets, An Economic Approach, Texas and A M University.

Bhole, L. M., Financial Institutions and Markets-Structure, Growth and Innovations, Tata McGraw Hill, New Delhi.

Chandra, Prasanna, Financial Management, 7th Edition, Tata McGraw Hill, New Delhi, 2008.

Chandra, Prasanna, Investment Analysis and Portfolio Management, 3rd Edition, Tata McGraw Hill, New Delhi, 2009.

Chandra, Prasanna, Managing Investments, Tata McGraw Hill.

Fabozzi, Frank J. and Harry M. Markowitz (Ed.), The Theory and Practice of Investment Management, John Wiley & Sons, Inc., Hoboken, New Jersey, 2002.

Hanson, James A. and Sanjay Kathuria, India, A Financial Sector for the 21st Century, Oxford University press.

Khan, M. V., Indian Financial system', Tata McGraw Hill.

Kohn, Meir, Financial Institutions and Markets, Tata McGraw Hill.

Gangadharan K(2012)Financial inclusion and inclusive growth: scope and Dimension, Reference Press, New Delhi

Pallale V. Bharati : Indian Financial System, Pearson, New Delhi, 2012.