

## 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.

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