

Financial Economics I (Seminar)

Master of Finance 1 Option “Law and Finance” Autumn 2019

This 18-hour seminar is part of the Master 1 programme in Finance at the University of Angers. It is mandatory for students who prepare for the Master 2 programme in Law and Finance.

Time: Mondays, 14h00 to 17h00

Room: 16

First session: 23 September 2019

Office hours: by appointment, write to Guido.Hulsmann@univ-angers.fr

Evaluation

- a) Participation (40%)
- b) 1500-word mid-term essay, due on 5 November 2018 (25%)
- c) 2000-word book review, due on 13 December 2019 (25%)
- d) Occasional quizzes (10%)

Contents and objectives

This is a reading seminar dealing with classic and present-day literature in financial economics. The main objective is to familiarise the students with the different economic approaches to study financial problems.

The field of “financial economics” covers a wide range of phenomena and problems, which have only two things in common: (1) that they somehow relate to the exchange of titles to future payments and (2) that they are analysed with the tools of economic analysis.

In the present seminar we will focus on two areas in particular. The first one is the relation between the real and the financial sector from an aggregate point of view. The second is the so-called Modern Theory of Finance, which is at heart a theory of financial-asset prices and is today applied in investments, portfolio management, corporate finance, and risk management. In both cases, we will study a selection of the foundational texts and neglect the secondary literature. Furthermore, we will concentrate on the substantive issues and avoid discussions of purely formal problems related to econometric and mathematical modelling.

Book Review Options

- Allen F, Gale D (2000) *Comparing Financial Systems* (Cambridge MA: MIT Press).
- Ammous S (2018) *The Bitcoin Standard* (New York: Wiley).
- Bagus P (2015) *In Defense of Deflation* (Berlin: Springer).
- Bullough O (2018) *Money Land* (London: Profile Books).
- Bragues G (2016) *Money, Markets, and Democracy: Politically Skewed Financial Markets and How to Fix Them* (New York: Palgrave).
- Braun E (2014) *Finance Behind the Veil of Money* (Liberty.me).
- Dowd K and M Hutchinson (2010) *Alchemists of Loss: How Modern Finance and Government Intervention Crashed the Financial System* (New York: Wiley).
- Godart A, Volanthen P (2018) *Banking and Monetary Reform Policy from the Perspective of Austrian Economics* (Berlin: Springer).
- Howden D, Salerno JT (2014) *The Fed at One Hundred: A Critical View on the Federal Reserve System* (Berlin: Springer).
- Machlup F (1940 [1931]) *The Stock Market, Credit, and Capital Formation* (London: Hodge, 1940).
- Reinhart CM, Rogoff KS, *This Time is Different* (Princeton NJ: Princeton University Press, 2009)
- Taleb NN, *Foiled by Randomness* (2nd ed., 2004), *The Black Swan* (2nd ed., 2010), *Anti-fragile* (2012), *Skin in the Game* (2018)
- Van Riet A (2018) *Financial Repression and High Public Debt in Europe* (Diss. Tilburg University).

Reading Schedule

I. Inter-temporal Exchange, Capital, Interest, and the Real Economy

- (1) WS Jevons (1888 [1871]) *Theory of Political Economy* (London: Macmillan), chap. VII, pp. 221-263.
- (2) Ev Böhm-Bawerk (1930 [1889]) *Positive Theory of Capital* (New York: Stechert), book V, chap. I to book VI, chap. VI, pp. 237-338.
- (3) Lv Mises (1981 [1912]) *Theory of Money and Credit*, Part Three, chap. V, pp. 377-404.
- (4) F Machlup (1940 [1931]) *The Stock Market, Credit, and Capital Formation* (London: Hodge, 1940), chaps I-V, pp. 1-66.
- (5) I Fisher (1930) *The Theory of Interest* (New York: Macmillan), chap. V, pp. 99-124.

II. Foundation of the “Modern Theory of Finance”

- (1) H Markowitz (1952) “Portfolio Selection” *Journal of Finance*, vol. 7, no. 1, pp. 77-91.
- (2) J Tobin (1958) “Liquidity Preference as Behavior Towards Risk” *Review of Economic Studies*, vol. 25, no. 2, pp. 65-86.
- (3) F Modigliani and MH Miller (1958) “The Cost of Capital, Corporation Finance and the Theory of Investment” *American Economic Review*, vol. 48, no. 3, pp. 261-297.

- (4) WF Sharpe (1964) “Capital Asset Prices: A Theory of Market Equilibrium under Conditions of Risk” *Journal of Finance*, vol. 19, no. 3, pp. 425-442.
- (5) P Samuelson (1965) “Proof that properly anticipated prices fluctuate randomly” *Industrial Management Review*, vol. 6, pp. 41–49.
- (6) EF Fama (1970) “Efficient Capital Markets: A Review of Theory and Empirical Work” *Journal of Finance*, vol. 25, no. 2, pp. 383-417.
- (7) Optional readings:
 - EF Fama (1965) “The Behavior of Stock Prices” *Journal of Business*, vol. 38, no. 1, pp. 34-105.
 - BB Mandelbrot (2008) “Bachelier, Louis (1870–1946)” in SN Durlauf and LE Blume (eds), *New Palgrave Dictionary of Economics*.
 - AW Lo (2008) “Efficient markets hypothesis” in SN Durlauf and LE Blume (eds), *New Palgrave Dictionary of Economics*.