Introduction
The course is an introduction to finance. We shall revisit some of the classical concepts of financial economics: moral hazard, asymmetric information, corporate governance, asset pricing, behavioral biases, the role of information in financial markets, banking and financial crises. The course will cover basic aspects of asset pricing, corporate finance and banking.

Objectives
We will study four broad areas of finance: asset pricing, corporate governance/corporate finance, the role of information in financial markets, and banking and financial crises. The objective is to equip students with tools to understand and do research in finance. At the same time we will discuss current policy developments as a result of the financial crisis.

Learning Outcomes
To master the concepts developed in the course material in such a way that independent research can be carried out.

Competences
General Competences (refer to list of general competences in the MRM)
- Conduct a critical analysis, evaluation and synthesis of new and complex ideas with the objective to produce general principles applicable to business situations.
- Use appropriate tools and techniques for problem solving, correction contrasting and decision validation.
- Demonstrate knowledge and understanding that provide a basis or opportunity for originality in developing and / or application of ideas, often related to a research context.
- Students should be able to communicate clearly and concisely their conclusions, underlying knowledge and reasons to a specialized and non-specialized audience.
- Students should possess the learning outcomes that enable them to continue studying in a way that will be largely self-directed or autonomous.

Specific Competences
- Conduct a critical analysis, evaluation and synthesis of new and complex ideas with the objective to produce general principles applicable to business situations.
- Ability to articulate research questions that could extend our understanding of the field, and design a research program to answer them.
Content

We shall start with an overview of the current financial system and institutions. Next, there will be an introduction to asset pricing, where we will discuss valuation of financial securities; the CAPM model; the market efficiency hypothesis and a discussion of the assumption of rational expectations. Presented papers will evaluate the empirical validity of some of the theories presented.

Next topic focuses on the role of information in financial markets. We aim to study the determinants of market quality parameters such as trading intensity, volatility, liquidity, informativeness of prices and volume. In order to do this, we will focus on the market microstructure of financial markets, i.e. how trading rules affect market quality. We will present a model of asymmetric information competitive rational expectations equilibrium, together with empirical papers which analyse the informational effect on asset prices. Next, we shall focus on strategic bidders who compete in demand schedules in a rich information structure environment, which allows for common and private values. We shall conclude on studying how behavioural biases affect asset prices and other market quality parameters.

The next block of the course will focus on corporate governance and corporate finance. We shall study moral hazard and asymmetric information when dealing with monitoring, control rights, managerial compensation. We shall apply these concepts to the management of banks.

Finally, we shall discuss banking theory and financial crises, and the role of regulation in mitigating their effects to markets and the overall economy. In particular we will explore the relationship between competition and stability in banking, stylized facts of the financial industry and the current financial crises.

Methodology

The course will be conducted in the doctoral seminar style in 20 sessions. Each topic will typically consist of a lecture that introduces the main concepts followed by a student presentation of a recent paper in the area of interest. The papers will be varied in methodology in order to give students exposure to the field. Some papers will focus on mathematical modeling, others will use empirical data and some will be policy oriented. There will be also an emphasis on how finance is related to other areas of management such as corporate governance, control, strategic management and economics.

Each student will have to present twice in the class.

Evaluation

The measuring of the learning outcomes and the grading of the course for the students will be according to the class presentation as well as class participation.
# Course Outline & Bibliography

<table>
<thead>
<tr>
<th>#</th>
<th>Title of session and material</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td><strong>Overview of the financial system and interest rates.</strong></td>
</tr>
<tr>
<td></td>
<td>Function and Structure Instruments.</td>
</tr>
<tr>
<td></td>
<td>Players and Regulation.</td>
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<tr>
<td></td>
<td>Behavior of interest rates.</td>
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<tr>
<td></td>
<td>Term Structure.</td>
</tr>
<tr>
<td></td>
<td>Readings: Mishkin, Ch. 1, 2, 4, 5 and 6 (Background).</td>
</tr>
<tr>
<td></td>
<td>Lecture: Xavier Vives</td>
</tr>
<tr>
<td>2</td>
<td><strong>Valuing financial assets.</strong></td>
</tr>
<tr>
<td></td>
<td>Valuation of common stocks.</td>
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<tr>
<td></td>
<td>Portfolio mean variance analysis.</td>
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<td></td>
<td>CAPM.</td>
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<td></td>
<td>Readings: Ross, Westerfield and Jaffe (2005), Ch. 9 and 10.</td>
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<td></td>
<td>Fama and French (2004).</td>
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<tr>
<td></td>
<td>Lecturer: Xavier Vives</td>
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<tr>
<td>3</td>
<td><strong>Valuing assets and market efficiency.</strong></td>
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<tr>
<td></td>
<td>Market efficiency hypothesis.</td>
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<td></td>
<td>Rational expectations.</td>
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<td>Asymmetric information.</td>
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<td></td>
<td>Readings: Mishkin, Ch. 7.</td>
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<td></td>
<td>Vives (2008), sections 4.1, 4.2.</td>
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<td></td>
<td>Lecture: Xavier Vives</td>
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<td>4</td>
<td><strong>Market efficiency and anomalies.</strong></td>
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<td>Lecture: Xavier Vives</td>
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<tr>
<td>5</td>
<td><strong>Market efficiency and anomalies.</strong></td>
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<td></td>
<td>Readings: Fama and French (2016).</td>
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<tr>
<td></td>
<td>Presenter: Xabier Barriola</td>
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<tr>
<td>6</td>
<td><strong>Market microstructure and information aggregation by prices</strong></td>
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<td></td>
<td>Competition in a uniform price auction with incomplete information.</td>
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<td></td>
<td>Lecture: Xavier Vives</td>
</tr>
<tr>
<td>7</td>
<td><strong>Central bank liquidity auctions</strong></td>
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<tr>
<td></td>
<td>Reading: Cassola, Hortaçsu &amp; Kastl (2013).</td>
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<tr>
<td></td>
<td>Presenter: Teng Huang</td>
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<tr>
<td>8</td>
<td><strong>Dynamic trading</strong></td>
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<tr>
<td></td>
<td>Evans and Neufeld (2014).</td>
</tr>
<tr>
<td></td>
<td>Lecture: Xavier Vives</td>
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<tr>
<td>Week</td>
<td>Topic</td>
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<td>------------------------------------------------</td>
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<tr>
<td>9</td>
<td>Disagreement and asset pricing</td>
</tr>
<tr>
<td>10</td>
<td>Corporate finance and corporate governance</td>
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<td></td>
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<td>12</td>
<td>Value at risk, liquidity and leverage.</td>
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<tr>
<td>14</td>
<td>Institutional ownership and corporate governance</td>
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<tr>
<td>15</td>
<td>Institutional ownership and efficiency</td>
</tr>
<tr>
<td>16</td>
<td>Banking and financial crises.</td>
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<tr>
<td></td>
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<tr>
<td>17</td>
<td>Regulation, competition and policy.</td>
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</table>
# Financial stability

*Lender Of Last Resort.*

*Resolution.*


Lecture: Xavier Vives

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# Bank competition and stability

Readings:


Background: Vives (2016), Ch. 5.

Presenter: Donald N’Gatta

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# The effects of bailouts

Readings:


Background: Vives (2016), Ch. 7.

Presenter: Alexis Yong

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## Bibliography

### Required Book:


### Complementary material (some chapters of these books may be required):


Session 1: Overview of the financial system and interest rates.
• Mishkin (2010), Chapters 1, 2, 4, 5 and 6.

Complementary material:
• Grinblatt and Titman (2002), Chapters 4 and 5.
• Bodie, Kane and Marcus (2009), Chapters 5, 6, 7 and 9.

Session 2: Valuing financial assets.
• Ross, Westerfield and Jaffe (2005), Chapters 9 and 10.

Session 3: Valuing assets and market efficiency.
• Mishkin (2010), Chapter 7.
• Vives (2008), Sections 4.1 and 4.2.

Session 4: Market efficiency and anomalies.

Complementary material:
• Bodie, Kane and Marcus (2009), Chapter 11.
• Grinblatt and Titman (2002). Chapters 9, 10 and 11.
• Ross, Westerfield and Jaffe (2005), Chapter 13.

Session 5: Market efficiency and anomalies.

Session 6: Market microstructure and Information aggregation by prices.
Complementary material:

Session 7: Central bank liquidity auctions.

Session 8: Dynamic Trading.

Session 9: Disagreement and asset pricing.

Session 10: Corporate finance and corporate governance.
- Mishkin, ch. 4.
- Tirole, ch. 2.

Complementary material:
- Ross, Westerfield and Jaffe (2005), Chapter 1.

Session 11: The effect of enforcement agencies on firms.

Session 12: Value at risk, liquidity and leverage.
- Shin (2011), Chapters 2 and 3.

Complementary material:
Session 13: Institutional ownership and market competition.


Session 15. Institutional ownership and efficiency.

Complementary material:

Session 16: Banking and financial crises.
- Mishkin (2010), Chapters 9 and 10.
- Vives (2016), Ch. 2, 3.

Session 17: Regulation, competition and policy.
- Mishkin (2010), Chapters 11, 12 and 15.
- Vives (2016), Ch. 5, 7.

Session 18: Financial stability.

Complementary material:


Session 20. The effects of bailouts.

Complementary material Bank Governance:
Professor’s Biography

Xavier Vives is professor of Economics and Finance, Abertis Chair of Regulation, Competition and Public Policy, and academic director of the Public-Private Research Center at IESE Business School. He holds a Ph.D. in Economics from UC Berkeley.


From 2001 to 2005 he was Professor of Economics and Finance and The Portuguese Council Chaired Professor of European Studies at INSEAD, and from 1991 to 2001, Director of the Institut d’Anàlisi Econòmica, CSIC. He has taught at Harvard University, Universitat Autònoma de Barcelona, Universitat Pompeu Fabra, the University of California at Berkeley, the University of Pennsylvania, and New York University (King Juan Carlos I Chair). From 2003 until 2013, he was member of the Economic Advisory Group on Competition Policy at the European Commission.


His current research interests include dynamic rivalry, innovation and competition, banking crisis and regulation, information and financial markets, and competition policy.

He has received several research awards: King Juan Carlos I Prize in 1988; the Catalan Society for Economics Prize in 1996; the Narcís Monturiol Medal in 2002; the Catalonia Economics Prize in 2005; a European Research Council Advanced Grant in 2008, and the Jaime I Prize in Economics in 2013. He is member of the Institut d’Estudis Catalans since 2011 and of the Academia Europaea since 2012.