

## 723 M2000 Finance Theory

Course Syllabus, Spring 2018

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This is a required course for the first-year graduate students with finance major, and it selectively reviews some major contributions made by financial economists in the areas of *asset trading*, *corporate finance*, and *banking*. Finance is a subfield of economics, with its focus on one particular input market—the capital market. Just like in other input markets, households and firms constitute respectively the major suppliers and demanders of the input (funds). Unlike in other input markets, suppliers do not receive the payments from the demanders at the time funds are supplied; instead, they receive “financial assets,” which specify how payments by the demanders will be made in the future. Inevitably, finance must deal with the interactions of “time, money, and uncertainty.” Financial economists study the behavior of households (investments), the behavior of firms (financial management), the functioning of markets (financial institutions), and how trades are consummated (asset pricing) under various trading mechanisms (market microstructure). This course intends to go over several important issues in these areas.

The course is divided into two parts. Part I considers asset trading with strategic investors, and part II will survey several important theories in corporate finance and banking. Since this literature commonly takes a game-theoretic approach, a brief review of the non-cooperative game theory will be given at the beginning of the semester.

Students will be organized into several study groups, and each group will have to present 3 assigned papers in class. The papers to be presented will be announced during the first week of the semester. In addition to the in-class midterm and final exams, there will be 5 in-class quizzes throughout this semester.

The performance of quiz 1 will account for 12% of the course grade. The performance of each remaining quiz 1 will account for 7% of the course grade. Each oral presentation will account for 10% of the course grade. The in-class midterm and final exams will each account for 15% of the course grade.