Course Outline for 5th edition of Bodie et al

1. Introduction to Financial Economics and Asset Pricing Theory
   a. Institutional Details Regarding Various Securities Markets Practices and Instruments

      Background Readings: Bodie, Chs. 1-4 and Ch. 5, Sections 5.1-5.7
      (Note: Students are expected to familiarize themselves with the materials and concepts in these readings but will not be directly tested on them.)

   b. Review of Statistical Concepts and Methods

      Assignment: Students should complete the problems appearing in the web-based supplement titled "Problems for Statistics Review".

2. The Time Dimension in Isolation: Asset Pricing in a World of Complete Certainty

   Readings: Bodie, Ch. 11, Sections 11.1-11.4; Ch. 12, Section 12.1; and the web-based supplement titled "Asset Pricing Under Complete Certainty".


3. The Risk Dimension in Isolation: Asset Pricing in a Timeless World
   a. Utility and Risk Aversion

      Readings: Bodie, Ch. 5, Sections 5.8 – end, including Appendices A, B, and C; CWS, Ch. 3.
      [Suggested, but not required, supplemental readings for very ambitious students are the web-based supplements titled "The Lognormal Distribution" and "Risk Aversion and Portfolio Choice".]

      Assignment: Bodie problems, 5.3, 5.6, 5.18, 5.19, 5.35, problem 1. in Appendix 5B, problems 1., 2. in Appendix 5C; problems 5 – 7 from the web-based list of "Assigned Problems".

   b. Mean–Variance Analysis and Efficient Portfolios

      Readings: Bodie, Ch. 6, including Appendices A and B.

      Assignment: Bodie problems, 6.21-6.34.

   c. The Capital Asset Pricing Model (CAPM)
Readings: Bodie, Ch 7, Sections 7.1-7.2

Assignment: Bodie problems 7.5-7.16, 7.30-7.31

d. Factor Models and Arbitrage Pricing Theory (APT)
Readings: Bodie, Ch. 8
[Curious students may wish to look at an alternative explanation of APT which appears as the web-based supplement titled "Hedge Portfolios, the No Arbitrage Condition, and Arbitrage Pricing Theory". This supplement was prepared in prior years when the course textbook was not as clear about APT as is our current Bodie text.]

Assignment: Bodie problems 8.1-8.2, 8.5-8.9, 8.17-8.20

e. Empirical Evidence Regarding CAPM and APT

Readings: Bodie, Ch. 10

Assignment: Bodie problems, 10-1-10.7

4. Combining the Time and Risk Dimensions: Asset Pricing in a Multi-period, Risky World

a. State Preference Theory and Arrow-Debreu Pricing

Readings: The web-based supplement titled "State Preference Theory"

Assignment: Problems 8 – 13 from the web-based list of "Assigned Problems".

b. The Consumption Based Capital Asset Pricing Model (CCAPM)

Readings: The web-based supplements titled "A Very Brief Introduction to CAPM" and "Summary Comparison of Alternative Asset Pricing Theories".

Assignment: Problems 14-16 from the web-based list of "Assigned Problems".

5. Options and Option Pricing

Readings: Bodie, Ch. 17, sections 17.1-17.4; Ch. 18
[A suggested, but not required, supplemental reading for extremely ambitious students is the web-based supplement titled "Continuous Time Processes".]


Assignment: Bodie problems 17.3-17.4, 17.12-17.16, 18.3-18.7, 18.27, 18.29, 18.31

Time Permitting

6. Market Efficiency

Readings: Bodie, Ch. 9