

University of Stellenbosch
Department of Economics
Post-graduate Program in Financial Economics: 2017

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Prospective Phd (Quantitative Finance, AIFRMR, UCT) ; MComm (Economics. Cum Laude);
Honours (Mathematical Statistics & Economics); BComm (Mathematical Science)

FINANCIAL ECONOMICS

Aims and Learning Objectives

The course is designed to provide students with an overview of the financial system, describing the players, assets and dynamics that adds to its unique composition. At first, the course will teach the students some of the fundamental concepts and theories that were at the core of the financial economic field's development. In particular it addresses key principles that guide the allocation of resources over time. It provides a theoretic motivation for the use of financial instruments and techniques used today, such as the widely used asset pricing models.

Thereafter we will touch on broader market- and instrument definitions, and discuss how certain assets can be manipulated and used to achieve a range of investment objectives. Topical issues will be addressed and the course duly adjusted to tackle pressing questions relevant during the month and week leading up to the class. Students will be motivated to keep abreast of financial issues that present itself during the course.

While this course will support a career in finance, it is primarily designed to prepare you for further study and research on topics in this area. In particular, the course is designed to add insight to the field of finance to economists, not financial professionals. We will be covering a broad range of topics so as to familiarize the student to what is regarded as common knowledge to practitioners, as well as more advanced topics. Although no formal background in finance is required, a keen (and hopefully growing) interest in financial matters and a critical eye on investment intermediation, financial market integration and asset allocation is required.

The prescribed textbook will be *Understanding South African Financial Markets*, although for the first few sessions we will be working from Jones' *Financial economics* to cover some of the theoretical aspects relevant to the field. Students need not purchase the latter textbook (as it is on reserve in the library if you are interested in viewing it), but are expected to purchase the textbook by Van Wyk, *et al.* Although we do not intend on following its structure and content exactly, this book will serve as a useful guideline and reference point to the student-become-practitioner in the future.

For all practical purposes the slides and specified reference points in the textbook should be a good indication of what to expect in the exam for theory, while issues addressed in class (and provided in articles) can be examined as well.

Teaching methodology and evaluation

This course will be taught through a series of 11 two hour lectures. There will also be a guest lecture at the end of the course.

The course will be evaluated as follows:

- One essay (40%). More detail will be given when the term starts.
- Final exam (3 hrs) (60%)

Readings

Prescribed textbook:

1. Van Wyk, K., *et al.* 2012. Understanding South African Financial Markets. *Van Schaik Publishers*

Other recommended reference texts:

1. Jones, C. 2008. Financial Economics. *Routledge*. (Available on reserve in the Library)
2. Du Toit, *et al.* Corporate Finance: A South African Perspective.

Journal Articles:

Articles will be made available through the duration of the course. These will be used mainly to keep students abreast of topical issues that arise during the progression of the course. Links to articles and pages on popular investment websites will be made available (such as on Bloomberg, etc.).

The list below is a broad outline of what follows and is by no means final.

The readings and / or topics can change – this will be communicated to students in due time.

Session outlines and related readings

Class	Topic	Readings
1	<u>Introduction to the field of financial economics.</u> Pricing assets intertemporally	Van Wyk, <i>et al.</i> 2012. Chapter1
2	<u>Classic finance theory.</u> Deriving Asset pricing models.	Jones, C. 2008.

3	<u>Deriving Asset pricing models</u> (contd).	Jones, C. 2008.
4	<u>Portfolio Theory</u> <ul style="list-style-type: none"> -How to define portfolio performance -How to define portfolio risk -Other technical analyses considered. 	Various sources.
5	<u>Discussion of the main asset classes: Bonds</u> <ul style="list-style-type: none"> -Bond instruments -Theory and calculations -What information do bonds provide economists 	Van Wyk, et al. Other sources too.
6	<u>Discussion of the main asset classes: Equities</u> <ul style="list-style-type: none"> -How are shares created and traded - What information is important to economists. 	Van Wyk, et al. Other sources too.
7	<u>Derivatives</u> <ul style="list-style-type: none"> - We discuss the various types and their uses. -Financial <i>weapons of mass destruction</i> or beneficial to investors seeking to hedge their risks? 	Demystifying Derivatives. Source will be put on reserve in the library.
8	<u>Thinking critically about investment outcomes.</u> <ul style="list-style-type: none"> -Why do we invest? -How do we invest? -Where do we invest? -Passive / active pursuit of profit? 	Various sources
9	<u>Economic indicators important to financial intermediaries.</u> <ul style="list-style-type: none"> - Contemporaneous considerations to investment intermediaries CIS industry in South Africa SPIVA report conclusions. Automated Investment Alternatives (Smart Beta) Active management Monkey Business? 	Various Sources
10	<u>Broad Topic Discussions</u> <ul style="list-style-type: none"> -Greek woes and the European case -Herbalife: the long and short of it 	Various Sources

	- The future of oil?	
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