

## Course information 2026-27

### FN2190 Asset Pricing and Financial Markets

#### General information

**MODULE LEVEL:** 5

**CREDIT:** 30

**NOTIONAL STUDY TIME:** 300 hours

**MODE:** Locally Taught and Independent Learner Route (not available for Online Taught students)

#### Summary

This course is aimed at students who wish to understand how financial markets work and how securities are priced. Using present value techniques, it gives a theoretical treatment of bond and stock valuation including portfolio theory and a development of the Capital Asset Pricing Model. The concept of financial market efficiency is introduced, and evidence for efficiency evaluated. Finally, there is a presentation of derivative pricing using absence of arbitrage arguments.

#### Conditions

Please refer to the relevant programme structure in the EMFSS Programme Regulations to check:

- where this course can be placed on your degree structure; and
- details of prerequisites and corequisites for this course.

You should also refer to the Exclusions list in the EMFSS Programme Regulations to check if any exclusions apply for this course.

#### Aims and objectives

The aims of this course are to:

- Provide students with a thorough grounding in asset pricing.
- Develop students' skills in applying pricing methods to realistic scenarios.
- Provide a critical overview of the research on financial market efficiency.
- Allow students to develop an understanding of how securities markets operate.

## Learning outcomes

At the end of this course and having completed the essential reading and activities students should be able to:

- Describe the important differences between stock, bond, and derivative securities.
- Explain how to price assets using both present value and absence of arbitrage methods.
- Apply present value techniques to price stocks and bonds.
- Employ mathematical tools to compute risk and return for portfolios of securities.
- Evaluate portfolio choice problems.
- Present, explain and apply the Capital Asset Pricing model for computing expected stock returns.
- Critically evaluate the evidence for informational efficiency of stock markets.
- Price derivative securities using absence of arbitrage.

## Employability skills

Below are the three most relevant employability skills that students acquire by undertaking this course which can be conveyed to future prospective employers:

1. Complex problem solving
2. Decision making
3. Communication

## Essential reading

For full details please refer to the reading list.

Brealey, R, Myers, S. and F. Allen Principles of Corporate Finance. (McGraw Hill, 2019) thirteenth edition [ISBN 978-1260565553]

## Assessment

This course is assessed by a three-hour and fifteen-minute closed-book written examination.

## Syllabus

**Present value calculations:** Discounting, compounding and the Net Present Value rule; quoted versus effective interest rates; annuities and perpetuities; Fisher separation.

**Bond valuation:** Valuing coupon, and zero coupon, bonds via present value methods; the term structure of interest rates and bond valuation; yield to maturity; interest rate risk and Macaulay duration; spot and forward interest rates; modelling the term structure of interest rates.

**Stock valuation:** Dividend discount models; the Gordon Growth model; earnings, payout ratios and stock prices; company valuation and the Present Value of Growth Opportunities.

**Portfolio Theory and the Capital Asset Pricing model:** Investor preferences; the mathematics of security portfolios; investor portfolio selection; market equilibrium and the CAPM; empirical evaluation of the CAPM and competing models.

**Efficient security markets:** Defining informational efficiency; why should markets be efficient? Problems with testing efficiency; evidence on the efficiency of stock markets; puzzles and anomalies.

**Derivative pricing:** The definition of a derivative contract; how to price derivatives using absence of arbitrage; forwards and futures contracts; pricing forwards on stocks, currencies, and commodities; option contracts; practical uses of options contracts; bounds on option premia; option pricing via binomial models and Black-Scholes.