Course information 2025-26

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.