Prof. Dr. Dr. h.c. Günter Franke 3rd January 2012

PhD Course: Discrete Time Theory of Finance

Thursday, 8th March 2012 – Friday, 16th March 2012
8:30-12:30, room F 424, University of Konstanz

Course Outline

	Prospective time schedule (day)
1. Equilibrium in Security Markets in a Single-Period Model *LeRoy/Werner* [2001], Ch. 1 – 3 (excluding 3.3)	1
2. Asset Prices in a Single-Period Model *Poon/Stapleton* [2004], Ch. 1, Ch. 2.1, 2.2.1, 2.2.2	2
Incomplete Markets *LeRoy/Werner* [2001], Ch. 16	2
3. Risk Aversion, Background Risk and the Pricing Kernel *Poon/Stapleton* [2004], Ch. 2.3 *Gollier* [2001], Ch. 8.1, 9.1 – 9.3 *Huang/Litzenberger* [1988], Ch. 2	3
4. a) Valuation of Contingent Claims, *Poon/Stapleton* [2004], Ch. 3-4 (excluding 3.2, 4.3)	4
b) Change of Numéraire (rather short) *Esser* [2003]	
5. Multiperiod Portfolio Selection and Consumption Decision *Ingersoll* [1987], Ch. 11	5
6. Multiperiod Asset Pricing, Systemic Risk *Poon/Stapleton* [2004], Ch. 5.1-5.4, *Ibragimov/Jaffee/Walden* [2011]	6
7. Market Liquidity and Knightian Uncertainty *Caballero/Krishnamurthy* [2008]	7

Literature

Caballero, R. and A. Krishnamurthy, Collective Risk Management in a Flight to Quality Episode, Journal of Finance, vol. 63 (2008), 2195-2230

Esser, Angelika: General Valuation Principles for Arbitrary Payoffs and Applications to Power Options under Stochastic Volatility,
Financial Markets and Portfolio Management, vol. 17 (2003), 351-372

Gollier, Christian: The Economics of Risk and Time, MIT Press, Cambridge (Mass.), 2001

Huang, C. and R. H. Litzenberger : Foundations of Financial Economics, North Holland 1988

Ibragimov, R., D. Jaffee, J. Walden: Diversification Disasters, Journal of Financial Economics, vol. 99 (2011), 333-348

Ingersoll, Jonathan: Theory of Financial Decision Making, Rowman & Littlefield Publ., Savage 1987

LeRoy, S.F. and J. Werner: Principles of Financial Economics, Cambridge Univ. Press, 2001

Poon, S.H. and R.C. Stapleton: Asset Pricing in Discrete Time, A Complete Markets Approach, Oxford University Press, 2005