

**THE UNIVERSITY OF HONG KONG
FACULTY OF BUSINESS AND ECONOMICS**

PhD Course Syllabus

Course Code/Title: [FINA6057] [Selective Topics in Finance Theory]

Course Description: This course is a Ph.D. level course on the frontier of finance theory. It consists of two parts. The first part focuses on the frontier of corporate finance theory with an emphasis on the latest development of the corporate finance theory literature, for example, to extend the classic corporate finance models to the general equilibrium and dynamic framework and embed the micro frictions into the macroeconomic framework. The second part focuses on the frontier of information economy in finance. Students will be introduced to the classic information models in finance., how public information affects financial markets, the interaction between market friction and information, investors' information acquisition and their implications, and the interaction between financial market and the real economy.

Course Objectives: This course aims to help Ph.D. students become familiar with the basic concepts/tools of finance theory and the recent development of finance theory. Meanwhile, this course aims to link theoretical foundations to empirical studies and help students equipped with the necessary skills in developing their independent research papers/thesis.

Pre-requisite: ECON6011, FINA6016, FINA6017

Assessment: 60% coursework; 40% examination

Remarks: All PhD courses are non-credit-bearing and will be assessed on a pass/fail basis.

Course Learning Outcomes (CLOs) On completion of this course, students should be able to:	Aligned PLOs*				
	1	2	3	4	5
1. Be familiar with literature	√	√	√		
2. Link theories to empirical studies	√	√		√	
3. Understand the basic and advanced theories in corporate finance	√		√	√	√
4. Understand the basic and advanced information theories in finance	√		√	√	√
5. Develop new research ideas	√	√			√

***Programme Learning Outcomes (PLOs) for Research Postgraduate Programme:**

1. Demonstrate critical understanding, at an advanced level, of up-to-date knowledge and research methodology of a particular field
2. Implement effective academic and personal strategies for carrying out research projects independently and ethically
3. Contribute original knowledge in response to issues in their specialist area
4. Communicate research findings at a diverse range of levels and through a variety of media
5. Evaluate one's own research in relation to important and latest issues in the field

COURSE DETAILS *(subject to change at instructor's discretion)*

Year/Semester: 2023-2024, First/Second Semester

Time/Venue: Date: Jan 16, 23, 30; Feb 6, 13, 20, 27; Mar 12, 19, 26; Apr 2, 9, 16, 23, 2024.

Time: TUE 13:30-16:30

Venue: KK1235

Instructor: **Prof. Xuwen Liu** (Lecture 1-6)

Email: xuwenl@hku.hk

Office: KKL-823 (by appointment)

Dr. Shiyang Huang (Lecture 7-12)

Email: huangsy@hku.hk

Office: KKL-834 (by appointment)

I. Teaching and Learning Activities

In-class and Out-of-class Activities <i>(e.g. lectures, class discussion, papers reading, proposal writing)</i>	Expected hour	% of student study effort
1. Lectures	36	50%
2. Assignments with class discussion	72	25%
3. Self-study with paper reading	36	25%
4.		
Total	144	100%

II. Assessment

Assessment Components <i>(e.g. assignments, proposal, presentation, examination)</i>	Weight	CLOs to be assessed				
		1	2	3	4	5
1. Participations	10%	√	√	√	√	√
2. Assignments	40%	√	√	√	√	√
3. Examinations/Presentation	50%	√	√		√	√
4.						
Total	100%					

Students will be assessed based on the following performance standards:

Course Grade	Performance Standard
Pass	(1) Lecture Participations (2) Submission of assignments (3) Satisfactory performance in assignments (4) Good understanding of the lecture materials (5) Being familiar with the literature (6) Satisfactory performance in examinations/presentations.

Fail	Students who fail to achieve most of the criteria listed above
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Assessment Component 1 (*Optional*)

Score	Performance Standard

Assessment Component 2 (*Optional*)

Score	Performance Standard

Assessment Component 3 (*Optional*)

Score	Performance Standard

Assessment Component 4 (*Optional*)

Score	Performance Standard

III. Course Content and Tentative Schedule

Below is a **tentative** outline of topics covered in the course, as well as some of the relevant readings from the various texts. (Readings that are labelled with “*” are recommended but not required.)

Lecture 1-2: Corporate finance frictions (e.g., moral hazard and adverse selection) in general equilibrium and dynamics

Lecture 3: Incomplete contracts and institution design

Lecture 4: Security design, corporate governance

Lecture 5: Credit constraints and pecuniary externality

Lecture 6: Introduction of financial intermediation

Lecture 7-8. Asymmetric Information in Financial Markets: An Introduction

- (1) Strategic Trading with Information Asymmetry in Financial Markets
- (2) A Bid-Ask Spread Trading Model with Information Asymmetry in Financial Markets
- (3) A Competitive Trading Model with Information Asymmetry

Reading List

- [1] Vives, Xavier, 2008, Information and Learning in Markets: The Impact of Market Microstructure. Princeton University Press, Princeton and Oxford.
- [2] Brunnermeier, Markus, 2001, Asset Pricing Under Asymmetric Information: Bubbles, Crashes, Technical Analysis, and Herding, Oxford University Press.
- [3] O'Hara, Maureen, Market Microstructure Theory
- [4] Kyle, Albert. S 1985, "Continuous Auctions and Insider Trading," Econometrica
- [5] Grossman, Sanford J., and Joseph E. Stiglitz, 1980, "On the Impossibility of Informationally Efficient Markets," American Economic Review 70, 393-408.
- [6] Hellwig, Martin F, 1980, "On the Aggregation of Information in Competitive Markets," Journal of Economic Theory 22, 477-498.

Lecture 9. Public Disclosure and Asymmetric Information in Financial Markets

Reading List

- [1] Goldstein, Itay, and Liyan Yang, Information Disclosure in Financial Markets, Annual Review of Financial Economics, vol. 9, pp. 101-125, December 2017.
- [2] Fishman, Michael J., and Kathleen M. Hagerty, 1992, "Insider Trading and the Efficiency of Stock Prices," The RAND Journal of Economics 23, 106-122.

Lecture 10. The interaction between Market Friction and Asymmetric Information

Reading List

- [1]. Vayanos, Dimitri and Jiang Wang 2012, Theories of Liquidity, Foundations and Trends in Finance, 6, 221-317.
- [2]. Vayanos, Dimitri and Jiang Wang, 2012, Liquidity and Asset Prices under Asymmetric Information and Imperfect Competition, Review of Financial Studies, 25, 1339-1365.
- [3] Brunnermeier, Markus, and Lasse Heje Pedersen, 2008, Market Liquidity and Funding Liquidity, the Review of Financial Studies, Volume 22, Issue 6, June 2009, Pages 2201–2238.

Lecture 11. Information Acquisition and Information Intermediary

Reading List

- [1] Admati, Anat R., and Paul Pfleiderer, 1986, A Monopolistic Market for Information, Journal of Economic Theory 39, 400- 438.
- [2] Admati, Anat R., and Paul Pfleiderer, 1990, Direct and Indirect Sale of Information, Econometrica, Vol. 58.
- [3] Peng, Lin, and Wei Xiong (2006), Investor Attention, Overconfidence and Category Learning, Journal of Financial Economics 80, 563-602.
- [4] Kacperczyk, Marcin, Laura Veldkmap, and Stijn Van Nieuwerburgh, 2016, A Rational

Theory of Mutual Funds' Attention Allocation, *Econometrica*, v.84(2), 571-626.

Lecture 12. The Interaction Between Financial Markets and Real Economy

Reading List

[1]. Titman, Sheridan, 2012, Financial Markets and Investment Externalities, *The Journal of Finance* The Presidential Address, VOL. LXVIII, NO. 4 AUGUST.

[2] Bond, Philip, Alex Edmans, and Itay Goldstein, The Real Effects of Financial Markets, *Annual Review of Financial Economics*, vol. 4, pp. 339-360, December 2012.

IV. Required/Recommended Readings

1. Vives, Xavier, *Information and Learning in Markets: The Impact of Market Microstructure*. Princeton University Press, Princeton and Oxford, 2008.
2. Maureen O'Hara, *Market Microstructure Theory*, Blackwell Publishing, 1998
3. Bolton and Dewatripont (2004), *Contract Theory*, MIT Press.

V. Course Policy

The University Regulations on academic dishonesty will be strictly enforced! Academic dishonesty is behaviour in which a deliberately fraudulent misrepresentation is employed in an attempt to gain undeserved intellectual credit, either for oneself or for another. It includes, but is not necessarily limited to, the following types of cases:

- a. Plagiarism - The representation of someone else's ideas as if they are their own. Where the arguments, data, designs, etc., of someone else are being used in a paper, report, oral presentation, or similar academic project, this fact must be made explicitly clear by citing the appropriate references. The references must fully indicate the extent to which any parts of the project are not one's own work. Paraphrasing of someone else's ideas is still using someone else's ideas, and must be acknowledged. Please check the University Statement on plagiarism on the web: <http://www.hku.hk/plagiarism/>
- b. Unauthorized Collaboration on Out-of-Class Projects - The representation of work as solely one's own when in fact it is the result of a joint effort.
- c. Cheating on In-Class Exams - The covert gathering of information from other students, the use of unauthorized notes, unauthorized aids, etc.
- d. Unauthorized Advance Access to an Exam - The representation of materials prepared at leisure, as a result of unauthorized advance access (however obtained), as if it were prepared under the rigors of the exam setting. This misrepresentation is dishonest in itself even if there are not compounding factors, such as unauthorized uses of books or notes.

You are expected to do your own work whenever you are supposed to. Incident(s) of academic dishonesty will NOT be tolerated. Cheating or plagiarism of any kind would result in an automatic FAIL grade for the course plus strict enforcement of all Faculty and/or University regulations regarding such behaviour.