



**LUND**  
UNIVERSITY

School of Economics and Management

## **NEKN81, Economics: Foundations of Finance, 7.5 credits**

*Nationalekonomi: Grunderna för finansiell ekonomi, 7,5  
högskolepoäng*

**Second Cycle / Avancerad nivå**

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### **Details of approval**

The syllabus was approved by The Board of the Department of Economics on 2011-06-07 to be valid from 2011-06-07, autumn semester 2011.

### **General Information**

This is a single subject master course in economics belonging to the 'Financial Economics' specialisation. The course is either obligatory or optional within a number of master programmes at Lund University.

*Language of instruction:* English

Teaching is in English. (In some semesters the course can be taught in Swedish, see the appropriate application catalogue).

*Main field of studies*

Economics

*Depth of study relative to the degree requirements*

A1N, Second cycle, has only first-cycle course/s as entry requirements

### **Learning outcomes**

#### 1. Knowledge and understanding

Students shall have developed a knowledge and understanding for well known ideas and theories within financial economics. More specifically, students shall be able to understand:

- the construction of the notion of expected utility,
- the difference between complete and incomplete markets,
- the difference between diversifiable and non-diversifiable risk within a portfolio context,
- the derivation of CAPM,

- the role of arbitrage in the price determination of derivatives,
- the role of options in calculating net present values of investments,
- the role of information in price determination.

## 2. Skills and abilities

Students shall have the ability to independently apply their knowledge to real world problems. In particular they shall be able to:

- calculate the risk premium, the certainty equivalent, absolute and relative risk aversion, prudence and temperance,
- calculate state prices,
- apply CAPM in equilibrium pricing,
- price derivatives,
- price real options,
- analyse finance-related problems in the real-world and to incorporate adequate methods and theories to analyse these problems,
- present a clear and pedagogical report of their own and others' empirical analyses.

## 3. Applying knowledge and making judgements

Students shall have developed

- the ability to pursue further studies in finance and economics,
- the ability to independently search for and evaluate information from literature within finance,
- the ability to independently write an essay at the master level.

## Course content

The course contains the following building blocks

- investment decision under certainty: the risk free rate and Fisher-separability;
- risk aversion and expected utility;
- Arrow-Debreu securities;
- portfolio theory
- market equilibrium: CAPM and multi-factor equilibrium models;
- derivatives
- term structure of the interest rates;
- real options;
- efficient markets;
- information asymmetry and agent theory.

No specific gender perspective is adopted in this course.

## Course design

1. Teaching: Tuition consists of lectures and exercises.

## Assessment

1. Examination: Examination consists of a written examination that takes place at the end of the course. There will be further opportunities for examination close to this date. Other forms of examination may be used to a limited extent.
2. Limitations on the number of examination opportunities: –

The University views plagiarism and other academic dishonesty very seriously, and will take disciplinary action against students for any kind of attempted malpractice in connection with examinations and assessments. Plagiarism is considered to be a very serious academic offence. The penalty that may be imposed for this, and other unfair practices in examinations or assessments, includes suspension from the University for a specified period.

*Subcourses that are part of this course can be found in an appendix at the end of this document.*

## Grades

Marking scale: Fail, E, D, C, B, A.

1. Grading: Grade (Definition), Points or percentage out of maximum points, Characteristic
  - A (Excellent), 85–100, A distinguished result that is excellent with regard to theoretical depth, practical relevance, analytical ability and independent thought.
  - B (Very good), 75–84, A very good result with regard to theoretical depth, practical relevance, analytical ability and independent thought.
  - C (Good), 65–74, The result is of a good standard with regard to theoretical depth, practical relevance, analytical ability and independent thought.
  - D (Satisfactory), 55–64, The result is of a satisfactory standard with regard to theoretical depth, practical relevance, analytical ability and independent thought.
  - E (Sufficient), 50–54, The result satisfies the minimum requirements with regard to theoretical depth, practical relevance, analytical ability and independent thought, but not more.
  - U (Fail), 0–49, The result does not meet the minimum requirements with regard to theoretical depth, practical relevance, analytical ability and independent thought. Students have to receive a grade of E or higher in order to pass a course.
2. Weighting grades from different parts of the course: –
3. Grading scales for different parts of the course: –

## Entry requirements

Students admitted to the Master Programmes in Finance are qualified for this course. For other students, at least 60 ECTS-credits in economics are required. These must include a course in basic financial economics, an intermediate course in microeconomics (e.g., NEKG21 "Intermediate Microeconomic Analysis"), and an intermediate course in econometrics, quantitative methods or an equivalent course (e.g., NEKG31 "Econometrics", or 15 ECTS-credits in statistics).

## **Further information**

1. Transitional regulations: This course replaces NEKM25 "Foundations of Finance".
2. Limitations in the period of validity: –
3. Limitations: This course may not be included in the same degree as NEK721 "Financial Economics D" or NEKM25 "Foundations of Finance".
4. Similar courses: –
5. Limitations in renewed examination: –

## Subcourses in NEKN81, Economics: Foundations of Finance

Applies from H11

1101 Foundations of Finance, 7,5 hp  
Grading scale: Fail, E, D, C, B, A