

**STUDIJŲ DALYKO PROGRAMA
STUDY SUBJECT PROGRAMME**

Subject code	Subject group	Credits	Subject certified	Subject certification valid until	Reg. No.
EKF5001	D	4	2008 04 03	2009 04 03	

Title

FINANSŲ EKONOMIKA

Title in English

FINANCIAL ECONOMICS

Subject annotation in English

The aim is to provide a set of rigorous tools and ideas necessary for an understanding of an efficient financial market and its consequences for economic decisions. The building blocks are negotiable financial instruments, their prices and valuation, and behaviour of consumers' and investors' using the instruments to increase wealth and economic welfare– to some extent a microeconomic approach to finance.

Necessary background knowledge for the study of the subject

Microeconomics
Mathematical Analysis and Linear Algebra
Methods of Mathematical Statistics in Economics
Corporate Finance

Study results of the subject

- To develop a broader theoretical approach in finance;
- To use more rigorous tools in finance;
- To make the acquaintance of arbitrage and complete/incomplete financial markets;
- To get the basics of consumption-based portfolio theory;
- To be familiar with general equilibrium explicitly involving financial markets;
- To make examples and calculations in connection with financial analyses.

Subject contents

A refreshment of prerequisites abovementioned. Treatment of concepts in the context of so-called classical finance – without any explicitly modelling of risk – quite similar capital budgeting, but also different concepts connected to bonds and assessment of bonds. Introduction of discrete time model of risk and state contingent securities and consumption plans. Arbitrage and arbitrage-free market, the rigorous description and consequences. Decision-making under uncertainty and the idea of expected utility. Different concepts related to expected utility; the precise statements about risk aversion and the meaning of more and less risk. The choice of optimal portfolios using utility theory. The optimal portfolio is decided with one risk-free security and the firstly with one risky, and secondly with multiple risky securities. Consumption-based security pricing, which is the foundation for understanding financial market equilibrium and CAPM in standardised economic approach of equilibrium based on the consumer's behaviour.

Study hours

Lectures	45
Seminars	15
Consultations	26,5
Homeworks	50
Individual independent study	23,5

Evaluation of study results

Homework; two counting for 20 % each.

Final exam; four hours written counting 60 %.

Literature

1. LeRoy Stephen F. & Jan Werner: (2001). *Principles of Financial Economics*, Cambridge University Press.
2. Poul Wolffsen: *Lecture Notes in Classical Finance and Math*, distributed.

Programme prepared by

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