



## PROGRAMME IN BUSINESS AND ECONOMICS

### **EFI257 Incomplete financial markets, 7.5 credits**

Inkompleta finansiella marknader, 7,5 högskolepoäng

*First Cycle*

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#### **Confirmation**

This course syllabus was confirmed by Programme in Business and Economics (ICU) on 2020-02-27 to be valid from 2020-08-31, autumn semester of 2020.

*Field of education:* Social Sciences 100%

*Department:* Programme in Business and Economics

*Other participating departments*

Department of Economics

Department of Business Administration

#### **Position in the educational system**

The course is offered in the first cycle and is included in the fifth semester of the Bachelor's Programme in Business and Economics for students majoring in financial economics. It is also offered as a freestanding course.

The course can be part of the following programmes: 1) Programme in Business and Economics (S1EPG), 2) Bachelor's Programme in Business and Economics (S1EKA) and 3) Programme in Business and Economics (S1HEM)

*Main field of studies*

Financial Economics

*Specialization*

G2F, First cycle, has at least 60 credits in first-cycle course/s as entry requirements

#### **Entry requirements**

To be eligible for the course, the student must have successfully completed at least 60 credits in first cycle courses in Business administration or Economics and completed EFI241 Finance 1 (7.5 credits) or equivalent.

**Learning outcomes**

On successful completion of the course the student will be able to:

1. value a project (real-options) where part of the value stems from development of the project,
2. make an asset allocation where the allocation depends on how the value of human capital is dependent on the equity market,
3. value options, which can not be hedged.

**Course content**

Most theories that have been discussed in previous courses in finance have implicitly assumed complete markets and that all assets can be traded. A complete market would allow trading in important assets such as human capital or future projects. These features of the economy will lead to allocations and prices that are in-consistent with standard asset pricing models such as "Capital Asset Pricing Model (CAPM)".

We will in this course show that options can make the market "almost" complete. It is therefore important that the assumptions on which we base our option pricing hold. One such critical assumption is the possibility of short-selling, i.e. selling assets that you do not own. The course also deals with the opposite, for example, when individuals cannot mortgage their future income; and how we should price an option contract to employee's (CEO) that cannot short the underlying asset.

We will also give a background to Real Options, i.e. methods to evaluate investments where you have the flexibility to defer, expand and abandon the investment. The course will present some theories but is mostly focused on professional implementation of solutions to these problems.

**Form of teaching**

Lectures and casework.

*Language of instruction:* English

**Assessment**

Written exam, two written case reports, and a research proposal (case assignments performed in group). Learning outcomes 1 and 2 are partly assessed by the written reports and the research proposal. All learning outcomes are assessed by the written exam.

If a student, who has failed the same examined element on two occasions, wishes to change examiner before the next examination session, such a request is to be submitted to the department in writing and granted unless there are special reasons to the contrary (Chapter 6, Section 22 of Higher Education Ordinance).

In the event that a course has ceased or undergone major changes, students are to be guaranteed at least three examination sessions (including the ordinary examination session) over a period of at least one year, though at most two years after the course has ceased/been changed.

**Grades**

The grading scale comprises: Excellent (A), Very good (B), Good (C), Satisfactory (D), Sufficient (E) and Fail (F).

To obtain a passing course grade, students must receive a passing grade on the individual written examination, the two case assignments and the research proposal. The written exam is worth 60 points (for a pass on the course at least 30 points is required). The case assignments and the research proposal are worth a total of 40 points (for a pass on the course at least 20 points is required and a minimum of 50% of the total points for each examination). The final grade corresponds to the total score a student obtains.

**Course evaluation**

Upon completion, the course will be evaluated in accordance with the rules for course evaluations established by the Bachelor's Programme in Business and Economics at the School of Business, Economics and Law. The results of the evaluation as well as any changes to the course structure shall be communicated to both the students who completed the evaluation and the students who are enrolled in the subsequent round of the course.

**Additional information**

The course cannot be applied towards a degree combined with EFI250 Finance 2: Intermediate Course (30 credits) or EFI254 Incomplete financial markets (7.5 credits).