

**The Government of the Russian Federation
Federal State Autonomous Institution for Higher Professional Education
National Research University Higher School of Economics
St. Petersburg Branch
St. Petersburg School of Economics and Management**

Course Syllabus

Theory of Finance

Area of Studies: 38.04.08 “Finance and Credit”

Level: Master

Master Programme “Finance”

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Recommended by the Head of the Students’ Office for Master in Finance Master Programme

Neklyudova M.A. _____ “ ___ ” _____ 20__

Approved by the Academic Council of Master in Finance Master Programme

On 30th August 2018 # 1-2018/19

Academic director: Rogova E.M. _____ “ ___ ” _____ 20__

St. Petersburg, 2018

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Course Syllabus

Title of the course	Theory of Finance		
Title of the Academic Programme	Master's programme, "Finance"		
Type of the course	Mandatory		
Prerequisites			
ECTS workload	4		
Total indicative study hours	Directed Study	Self-directed study	Total
	48	142	190
Course Overview	<p>The basic objective of this foundation course in finance is to summarize the fundamental theoretical aspects of finance relevant to the future study of finance and application within the scope of your master's degree. Essentially the course is an introduction to the theory and practice theory of modern financial economics and financial management, with a focus on capital markets and investments, and quantitative finance. It will introduce you to, or help you revise, the basic fundamentals – the most important concepts and analytical tools used in financial decision making, the important role of financial markets in finance, the basic principles of valuation, investing capital in investment opportunities to create value, the meaning and management of risk, and how organizations should raise and invest capital.</p>		
Intended Learning Outcomes (ILO)	<p>To know: Patterns of functioning and development trends of the national and global financial system: fiscal, budgetary system, public finance, financial market; Main results of the latest research in the field of finance theory; Differences between the major segments of the financial markets; Efficient market hypothesis; Types of financial intermediaries and their functions; Principles that determine the efficiency of financial operations.</p> <p>To be able to: Identify key issues of information efficiency of financial markets; Highlight the features of the functioning of financial markets in economies in transition are not clearly fixed the rights of private property; Understand the essence of the changes taking place in the financial markets; Assess the factors affecting the stability of emerging economies; Evaluate the causes of financial crises in developing countries.</p> <p>To acquire skills in: Possession of the procedure and methodology of scientific research in the professional field; Skills of independent research work; Analysis of the specific situation on the financial markets, budgetary, fiscal system, public finance.</p>		
Teaching and Learning Methods	<p>The course consists of lectures (24 hours) and seminars (24hours). The seminars involve student presentations (individually or in small groups) of contemporary research on financial system, Theory of Change in finance, corporate and public finance, financial management published in leading economics and finance journals. For each topic, a list of suggested articles is provided by the instructor.</p>		
Content and Structure of the Course			

№	Topic / Course Chapter	Total	Directed Study		Self-directed Study
			Lectures	Tutorials	
1	Introduction and history of the financial school	12	2	0	10
2	The financial system, financial markets, the modern theory of finance	18	2	2	14
3	Models in Financial Theory	18	2	2	14
4	The time and the risk value of capital	14	2	2	10
5	The theory of public finance	16	2	2	12
6	Budget system	18	2	2	14
7	Fundamentals of Corporate Finance	20	2	4	14
8	Financial assets and their valuation	16	2	2	12
9	Securities market, the theory of rational expectations and market efficiency hypothesis	18	2	2	14
10	Derivatives	18	2	2	14
11	International Finance and Monetary Policy	22	4	4	14
Total study hours		190	24	24	142
Indicative Assessment Methods and Strategy		<p>The cumulative grade (G_C) is calculated as an average, based on the following equation: $G_C = 0,5 \cdot G_{hw} + 0,2 \cdot G_{sa} + 0,3G_t$ where G_{hw} – grade for homework projects and work on practice lessons G_{sa} – grade for students’ activities at class G_t - grade for written assignment The final grade (G_F) is calculated as follows: $G_F = 0,5 \cdot G_C + 0,5 \cdot G_{EX}$, where G_{EX} – grade for the final examination</p>			
Readings / Indicative Learning Resources		<p><u>Mandatory</u> Joseph E. Stiglitz (2000). Economics of the Public Sector, 3rd ed. Norton. A.B. Atkinson and J. E. Stiglitz (1980). Lectures in Public Economics, McGraw-Hill Economics Handbook Series Financial Economics (2nd Edition) /Zvi Bodie, Robert C Merton, David Cleeton - Pearson Learning Solutions; 2 edition, 2012. - 512 c.</p> <p><u>Optional</u> The Economics of Money, Banking and Financial Markets / Frederic S. Mishkin – Pearson Education; Global ed of 10th revised ed edition. 2012. – 520 c. Richard J. Teweles, Edward S. Bradley. / The Stock Market. - Wiley Investment- 7 ed. 1999. 512 p Sharpe W., Alexander G., Bailey J. / Investments.- Prentice Hall, 1998. — 962 p. F. Fabozzi, F. Modigliani, M. Ferry “Foundations of Financial Markets</p>			

	and Institutions” Prentice Hall 1998 D. Blake “Financial Market Analysis” Wiley 2003 A. Shleifer “Inefficient Markets. An Introduction to Behavioral Finance” Oxford University Press 2000		
Indicative Self- Study Strategies	Type	+/-	Hours
	Reading for seminars / tutorials (lecture materials, mandatory and optional resources)	+	60
	Assignments for seminars / tutorials / labs	+	40
	E-learning / distance learning (MOOC / LMS)		
	Fieldwork		
	Project work	+	30
	Other (please specify)		
	Preparation for the exam	+	12
Academic Support for the Course	Academic support for the course is provided via LMS, where students can find: guidelines and recommendations for doing the course; guidelines and recommendations for self-study; samples of assessment materials		
Facilities, Equipment and Software	(If required)		
Course Instructor	Vasilisa Makarova		

Intended Learning Outcomes (ILO) Delivering

Programme ILO(s)	Course ILO(s)	Teaching and Learning Methods for delivering ILO(s)	Indicative Assessment Methods of Delivered ILO(s)
LO1 Understand the challenges of uncertain economic environment, assess them and take appropriate financial and investment decisions	Understand time value of money, patterns of financial decision making in increasing complexity of financial environment. To know mathematics of finance theory and methodology of financial decisions.	Lectures Practice Reading materials	Test Presentations Exam
LO2 Demonstrate deep knowledge and critical understanding of theories, principles, concepts and	Understand specific questions the theory addresses. Understand that finance issues are	Group presentations Discussions	In-class discussion Presentation

methodologies in finance	not isolated from each other. To know how and when finance theory can be applied to achieve a desired goal.		
LO4 Examine and critically appraise research methods and tools relevant for research in finance	To understand which theory is applicable in these circumstances and what are its practical limits. To be familiar with empirical evidence which support or reject hypothesis and predictions of a theory. Be able to critically evaluate current research in this field	Analysis of publications in leading academic journals In-class discussions	Presentation Discussion

Course Content

Topic 1. Introduction and history of the financial school

Periods of financial science. The essence of classical and neoclassical theory of finance; The role of individual scientists in the development of financial science; The neoclassical theory of finance; Features of development of financial science in Russia; Russian scientists contribution to the development of financial science

Miller M.H. (1999). The history of finance. The journal of portfolio management. Summer 1999., pp 95-101

Spiegel. H.W. (1971)"The Growth of Economic Thought".[.URL http://www.csus.edu/indiv/d/dowellm/econ101/spiegel%201\(1\).pdf](http://www.csus.edu/indiv/d/dowellm/econ101/spiegel%201(1).pdf)

Musgrave R. A., Musgrave P. B..(1989)"Public Finance in Theory and Practice".

J. M. Buchanan, M. R. Flowers (1975)' The Public Finances. An Introductory Textbook".

Atkinson and Stiglitz.(1980) A. B. Atkinson, J. E. Stiglitz "Lectures on Public Economics".

Topic 2. The financial system, financial markets, the modern theory of finance

The functions of the financial markets. Structure and classification of financial markets (according to the type of financial instruments, according to the method of placement of financial instruments by maturity instruments, according to the method of organization of transactions). The international financial market, eurobonds, euro. International securities market. Financial intermediaries. The role of financial intermediation to ensure the effectiveness of economic development. Types of financial intermediaries. Regulation of the financial system.

Frederic S. Mishkin. 2012 The Economics of Money, Banking and Financial Markets– Pearson Education; Global ed of 10th revised ed edition. 2012. – 520 c.,

Fabozzi F., Modigliani F., Jones F. (2010) Foundations of Financial Markets and Institutions. (4th Edition)

Frederic S. Mishkin, 1991. "Asymmetric Information and Financial Crises: A Historical Perspective," in R. Glenn Hubbard, ed., Financial Markets and Financial Crises (description), Chicago, pp. 69-108

Zvi Bodie, Robert C Merton, David Cleeton. (2012) Financial Economics - Pearson Learning Solutions; 2 edition.

Topic 3. Models in Financial Theory

Models concerning the effect of time on the value of capital (money and financial assets) in a world of certainty. Models concerning the effect of risk on the value of capital (money and financial assets) in a world of uncertainty. Interest and Dividends — The Basic Model. Capital Budgeting.

Peleg D. (2014) Fundamental models in financial theory. Massachusetts Institute of Technology

Welch I. (2006) A First Course in Finance. Yale University

Topic 4. The time and the risk value of capital. Separating Investment Decisions and Present Values From Other Considerations. Market Depth and Transaction Costs. An Introduction to The

Tax Code. Working With Taxes. Inflation. Multiple Effects. Statistical Tools in Financial Theory. Random Processes — Stochastic Dominance on the Payoff-Probability Plane. Random Processes — Stochastic Dominance on the Mean Yield – Risk Plane. Investment Decisions in a Random Market

Peleg D. (2014) Fundamental models in financial theory. Massachusetts Institute of Technology
Welch I. (2006) A First Course in Finance. Yale University

Topic 5. The theory of public finance

Basic concepts of the theory of public finance. Rationale for government intervention in the economy. Functions of the State . Functions of the public finances. The centralized and decentralized funds of funds. The state budget. The budgetary system.

J. M. Buchanan (1960) 'The theory of public finance'.

Joseph E. Stiglitz (2000). Economics of the Public Sector, 3rd ed. Norton.

A.B. Atkinson and J. E. Stiglitz (1980). Lectures in Public Economics, McGraw-Hill Economics Handbook Series

Topic 6. Public expenditure and the process of budgeting. Budget execution

The structure of public finance and fiscal system of the Russian Federation. Budget classification. Classification of income. The classification of expenditure budgets. Classification of government operations. State and municipal budgets. The nature and function of the budget. Public budget function. Necessary budget properties. E budget. Budgeting. The concept and principles of public expenditure. Forms of government spending. The main functional expenditure federal budget.

Budget theory in the public sector (2002) / edited by Aman Khan, and W. Bartley Hildreth.

Topic 7. Management of public finances: systems, processes and institutions, financial reporting

Public financial management systems. Processes of public financial management. Institutions of state financial management. Financial Reporting Standards. Key performance indicators of financial management.

Roger W. Mills, John Robertson.2014. Fundamentals of Managerial Accounting and Finance, Mars Business Associates Ltd ISBN: 9781873186121 , 4th Revised edition

Topic 8. Incomes of the state budget. Budget Balance: Problems of Deficit and Debt

Content and basic classification of public revenues, their composition and structure. The essence of taxes and principles of taxation. The function and role of taxes in social reproduction. tax items. Classification of taxes and the characteristics of the main types. The economic essence of public revenues. State and local income: composition and methods of mobilization. Taxes - the main form of public revenues. Direct and indirect taxes. Basics of tax planning. State fiscal monopoly. Customs revenues. Methods for determination of customs revenue. Revenues from the management and sale of state property.

1. Budget theory in the public sector (2002) / edited by Aman Khan, and W. Bartley Hildreth.

Topic 9. Audit and guarantees, fraud and corruption

Types of fraud at the level of public finance. Methods of detection, suppression. Stakeholder models. Impact on the effectiveness of budget execution. Internal control and its role in preventing fraudulent schemes. Forensic.

1. Hough D. 2013. Corruption, Anti-Corruption and Governance. Basingstoke: Palgrave Macmillan.
2. Talbot, C., Johnson, C. and Wiggan, J. (2005), Exploring Performance Regimes – A Report for the National Audit Office, Manchester Business School, Centre for Public Policy and Management, Manchester.

Topic 10. Fundamentals of Corporate Finance

The basic concept of management decisions, methodical provision of financial management. Structure and cost of capital. The concept of payment for items the company's capital. The concept of the company's working capital. Internal and external sources of funding. Analysis and evaluation of the financial condition of the company. Models achievable economic growth.

Zvi Bodie, Robert C Merton, David Cleeton. (2012) Financial Economics - Pearson Learning Solutions; 2 edition

E.F. Brigham, M.C. Ehrhardt,(2014) “Financial Management – Theory & Practice – 14th Edition”

Topic 11. International Finance and Monetary Policy

The foreign exchange market. Exchange rates in the long and short term. Currency fluctuations. Purchasing power parity. The international financial system. The role of the international financial market in monetary policy. The regulation of the exchange rate as a goal and a method of monetary policy.

1. Frederic S. Mishkin. 2012 The Economics of Money, Banking and Financial Markets– Pearson Education; Global ed of 10th revised ed edition. 2012. – 520 c.
2. Dolar, V. and C. Meh. 2002. “Financial Structure and Economic Growth: A Non-Technical Survey.” Bank of Canada Working Paper No. 2002-24.
3. Gandolfo, Giancarlo (2002). International Finance and Open-Economy Macroeconomics. Berlin, Germany: Springer. ISBN 978-3-540-43459-7.
4. Pilbeam, Keith (2006). International Finance, 3rd Edition. New York, NY: Palgrave Macmillan. ISBN 978-1-4039-4837-3.
5. Feenstra, Robert C.; Taylor, Alan M. (2008). International Macroeconomics. New York, NY: Worth Publishers. ISBN 978-1-4292-0691-4.
6. Madura, Jeff (2007). International Financial Management: Abridged 8th Edition. Mason, OH: Thomson South-Western. ISBN 0-324-36563-2.
- Eun, Cheol S.; Resnick, Bruce G. (2011). International Financial Management, 6th Edition. New York, NY: McGraw-Hill/Irwin. ISBN 978-0-07-803465-7.

Assessment Methods and Criteria

Assessment Methods

Types of Assessment	Forms of Assessment	Modules			
		1	2	3	4
Formative Assessment	Test	*			
	Essay	*			
	Report/Presentation		*		
	Project		*		
	In-class Participation	*	*		
	Other (write appropriate control forms for the course)				
Interim Assessment (if required)	Assignment (e.g. written assignment)		*		
Summative Assessment	Exam		*		

Assessment Criteria

In-class Participation

Grades	Assessment Criteria
«Excellent» (8-10)	A critical analysis which demonstrates original thinking and shows strong evidence of preparatory research and broad background knowledge.
«Good» (6-7)	Shows strong evidence of preparatory research and broad background knowledge. Excellent oral expression.
«Satisfactory» (4-5)	Satisfactory overall, showing a fair knowledge of the topic, a reasonable standard of expression. Some hesitation in answering follow-up questions and/or gives incomplete or partly irrelevant answers.
«Fail» (0-2)	Limited evidence of relevant knowledge and an attempt to address the topic. Unable to offer relevant information or opinion in answer to follow-up questions.

Project Work

Grades	Assessment Criteria
«Excellent» (8-10)	A well-structured, analytical presentation of project work. Shows strong evidence and broad background knowledge. In a group presentation all members contribute equally and each contribution builds on the previous one clearly; Answers to follow-up questions reveal a good range and depth of knowledge beyond that covered in the presentation and show confidence in discussion.
«Good» (6-7)	Clearly organized analysis, showing evidence of a good overall knowledge of the topic. The presenter of the project work highlights key points and responds to follow up questions appropriately. In group presentations there is evidence that the group has met to discuss the topic and is presenting the results of that discussion, in an order previously agreed.
«Satisfactory» (4-5)	Takes a very basic approach to the topic, using broadly appropriate material but lacking focus. The presentation of project work is largely unstructured, and some points are irrelevant to the topic. Knowledge of the topic is limited and there may be evidence of basic misunderstanding. In a group presentation, most of the work is done by one or two students and the individual contributions do not add up.
«Fail» (0-2)	Fails to demonstrate any appropriate knowledge.

Written Assignments (Essay, Test/Quiz, Written Exam, etc.)

Grades	Assessment Criteria
«Excellent» (8-10)	Has a clear argument, which addresses the topic and responds effectively to all aspects of the task. Fully satisfies all the requirements of the task; rare minor errors occur;
«Good» (6-7)	Responds to most aspects of the topic with a clear, explicit argument. Covers the requirements of the task; may produce occasional errors.
«Satisfactory» (4-5)	Generally addresses the task; the format may be inappropriate in places; display little evidence of (depending on the assignment): independent thought and critical judgement include a partial superficial coverage of the key issues, lack critical analysis, may make frequent errors.
«Fail» (0-2)	Fails to demonstrate any appropriate knowledge.