

Semester	III
Paper Number	<b>MECO4302</b>
Paper Title	<b>Financial Economics</b>
No. of Credits	6
Theory/Composite	Theory
No. of periods assigned	6
Course description/objective	This paper will enable students to study various dimensions of financial economics like capital structure, corporate financing, industrial organization, capital budgeting, capital asset pricing model and derivative market
Syllabus	<p><b>Module 1(40 marks)</b></p> <ol style="list-style-type: none"> <li><b>1. Capital Structure and basic concepts</b> – Modigliani-Miller theorem and the financial structure puzzle; Corporate tax and personal tax; Limits to debt and cost of financial distress; Pecking order theory.</li> <li><b>2. Corporate financing and Agency cost</b> – The role of net worth and credit rationing; Debt overhang; Borrowing capacity; The equity multiplier.</li> <li><b>3. The Industrial organization approach to banking</b> – A model of perfect competition; The Klein-Monti model of monopolistic bank.</li> <li><b>4. Capital budgeting</b> - Net Present value approach; Payback period method; Discounted payback period method; Internal rate of return; Profitability index; Financial statement and Ratio analysis; term structure of Interest rate, spot rate and Yield to maturity; Weighted average cost of capital and dividend growth model</li> </ol> <p><b>Module 2 (40 marks)</b></p> <ol style="list-style-type: none"> <li><b>5. Capital Asset Pricing Model</b> – Market Equilibrium; Capital market line; The Pricing model; The Security market line; Investment Implications; Performance Evaluation; CAPM as a Pricing Formula</li> <li><b>6. Derivative market: Forwards, Futures, Options and Swap</b></li> </ol>
Readings	<ol style="list-style-type: none"> <li>1. J. C. Hull. Options, Futures and Other Derivatives, Pearson Education, 2014.</li> <li>2. J. Tirole, The theory of Corporate finance, Princeton University Press.</li> <li>3. R.A. Brealey and S.C. Myers: Principles of Corporate Finance. McGraw Hill/ Irwin, 2007.</li> <li>4. S. Kevin. Portfolio Management; Prentice Hall India, 2006.</li> <li>5. S.A. Ross, R.W. Westerfield and B.D. Jordon, Fundamentals of Corporate Finance. McGraw Hill/ Irwin, 2012.</li> <li>6. X. Freixas and J. C. Rochet, Microeconomics of Banking, The MIT Press.</li> </ol>
Evaluation	Continuous Internal Assessment: 20 marks End- Semester Theory Examination: 80 marks

Paper Structure for End Sem Theory	Module	No. of Questions to be Answered	No. of Alternatives	Marks
	Module 1	2	3	$5 \times 2 = 10$
		2	3	$15 \times 2 = 30$
	Module 2	2	3	$5 \times 2 = 10$
		2	3	$15 \times 2 = 30$
	Total Marks			80