

Semester	VI
Paper Code	
Paper Title	FINANCIAL ECONOMICS
No. of Credits	4
Theory/Practical/Composite	Theory
No. of periods assigned	4
Minimum No. of preparatory hours per week a student has to devote	4
Course description/objective	<ol style="list-style-type: none"> 1. Introduce an alternative approach to banking 2. Examine the issues on Financial Globalization 3. Analyze the basics of Capital Structure 4. Explain the concepts and techniques of Capital budgeting 5. Introduce basic concepts of Corporate finance 6. Introduce the Capital Asset Pricing model 7. Introduce Derivative markets
Syllabus	<p>Module 1 (35 marks, 2 periods per week)</p> <p>Capital Structure and basic concepts – Modigliani-Miller theorem and the financial structure puzzle; Corporate tax and personal tax; Limits to debt and cost of financial distress; Pecking order theory.</p> <p>Capital budgeting - 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</p> <p>Financial Globalization and Financial Crisis Financial Markets and Instruments: An Introduction: Dimensions of financial crisis- a historical overview; Problem of asymmetric information- adverse selection and moral hazard in financial markets; Financial acceleration hypothesis; International crises - Policies and Prevention</p> <hr/> <p>Module 2 (35 marks, 2 periods per week)</p> <p>Corporate financing and Agency cost – The role of net worth and credit rationing; Debt overhang; Borrowing capacity; The equity multiplier.</p> <p>Capital Asset Pricing Model – Market Equilibrium; Capital market line; The Pricing model; The Security market line; Investment Implications; Performance Evaluation; CAPM as a Pricing Formula</p> <p>Derivative markets: Introduction to Forwards, Futures, Options and Swap</p>

	Modern theories of banking – A model of perfect competition: The Klein-Monti model of monopolistic bank.			
Readings	<ol style="list-style-type: none"> 1. J. C. Hull. Options, Futures and Other Derivatives, Pearson Education, 2014. 2. J. Tirole, The theory of Corporate finance, Princeton University Press. 3. R.A. Brealey and S.C. Myers: Principles of Corporate Finance. McGraw Hill/ Irwin, 2007. 4. S. Kevin. Portfolio Management; Prentice Hall India, 2006. 5. D. Luenberger, Investment Science 6. Stephen Ross, Randolph Westfield, Jeffrey Jaffe, Corporate Finance, McGraw-Hill Education 			
Evaluation	Continuous Internal Assessment: 30 marks End- Semester Theory Examination: 70 marks			
Paper Structure for End-Sem Exam	Module	No. of Questions to be Answered	No. of Alternatives	Marks
	Module 1	3	4	3 x 5 = 15
		2	3	2 x 10 = 20
	Module 2	3	4	3 x 5 = 15
		2	3	2 x 10 = 20
	Total Marks			70