
 <p>MONTPELLIER MANAGEMENT UNIVERSITÉ DE MONTPELLIER</p> <p>Union de l'ISEM et de l'AES  <small>WWW.QUALICERT.FR</small></p>	<p>EDBA-HEEC</p> <p>FINANCE THEORY</p>	<p>Pr. Patrick SENTIS</p>
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I - Course Objectives

The goal of this course is to provide participants with the main topics in finance theory the managers should know in their activities. The mathematical sophistication is kept to a minimum. The intuition of results will be preferred to the calculation. The course will cover basic concepts and few advanced ones about portfolio theory, valuation, option and financial structure.

II - Course Content

1. Risk and Return
2. Efficient Market Hypothesis
3. Corporate Finance
4. Option theory
5. Research in Finance

III – Schedule

	Topics	Book reading (Copeland Weston and Shastri)	Articles (see readings article for detailed references)
1	Introduction		
2	Risk and Return Portfolio Theory Valuation, CAPM APT	Chap. 5 Chap. 6	Markowitz, Sharpe, Lintner, Tobin, Ross, Bower et al.
3	Efficient Market Hypothesis EMH in question Behavioral Finance	Chap. 10, 11 Chap. 20, p 875-876	Fama, Haugen, DeBondt, Jegadeesh and Titman...

4	Corporate Finance Agency Theory Financial Structure	Chap. 12 Chap. 15	Modigliani and Miller, Myers, Jensen and Meckling, Jensen...
5	Option Theory	Chap. 7	Hull
6	Research in Finance		

IV – Readings

➤ Books

Copeland, Weston, and Shastri (2003), “Financial Theory and Corporate Policy” (4e), Pearson.

Hull J.C. (1997) “Options, Futures and Other Derivatives” (3rd), Prentice Hall.

Tirole J. (2006) “The Theory of Corporate Finance”, Princeton University Press.

➤ Articles

Barberis N. and Thaler R., « A Survey of Behavioral Finance », in Handbook of the Economics of Finance, ed. Constantinides, Harris and Stulz, 2003.

Basu S., « The Investment Performance of Common Stocks in Relation to their Price-earnings: A Test of the Efficient Market Hypothesis », Journal of Finance, vol. 32, 1977, p. 663-682.

Bower D., Bower R., and Logue D., « A Primer on Arbitrage Pricing Theory » in The Revolution in Corporate Finance, ed. Stern et Chew, Blackwell, 1998.

DeBondt W. and Thaler R., « Does the Stock Market Overreact? », Journal of Finance, vol. 40, 1985, p. 793-805.

Fama E. and French K., « The Cross-Section of Expected Stock Returns », Journal of Finance, vol. 47, 1992, p. 427-465.

Fama E. and MacBeth J., « Risk, Return, and Equilibrium: Empirical Tests », Journal of Political Economy, vol. 81, 1973, p. 607-636.

Fama E., « Efficient Capital Markets: A Review of Theory and Empirical Work », Journal of Finance, vol. 25, 1970, p. 383-417.

Fama E., « Random Walks in Stock Market Prices », Financial Analysts Journal, Sept-Oct 1965.

Fama E., Fisher L., Jensen M. and Roll R., « The Adjustment of Stock Prices to New Information », International Economic Review, vol. 10, 1969, p. 1-21.

Haugen R. and Lakonishok J., The Incredible January Effect, Dow Jones-Irwin, 1988.

Haugen R., The New Finance, 2nd Edition, Prentice Hall, 1999.

Jegadeesh N. and Titman S., « Returns to Buying Winners and Selling Losers: Implications for Stock Market Efficiency », Journal of Finance, vol. 48, n° 1, 1993, p. 65-91.

Jensen, M. and Meckling, W., "Theory of the Firm: Managerial Behaviour, Agency Costs, and Ownership Structure", *Journal of Financial Economics*, 1976, p. 305-360.

Jensen, M., "Agency cost of free cash flow, corporate finance and takeovers", *American Economic Review Papers and Proceedings*, 76, 1986, p. 323-329.

Kahneman D. and Tversky A., « Prospect Theory: An Analysis of Decision Under Risk », *Econometrica*, vol. 47, 1979, p. 263-291.

Lintner J., « The Valuation of Risk Assets and the Selection of Risky Investments in Stock Portfolios and Capital Budgets », *Review of Economics and Statistics*, vol. 47:1, 1965 p. 13-37.

Markovitz H., « Portfolio Selection », *Journal of Finance*, vol. 7, 1952, p. 77-91.

Markovitz H., *Portfolio Selection: Efficient Diversification of Investments*, Wiley, 1959.

Modigliani, F. and Miller, M., "Corporate income taxes and the cost of capital: A correction" *American Economic Review*, June, 1963, p. 433-443.

Modigliani, F. and Miller, M., "The cost of capital, corporation finance, and the theory of investment", *American economic Review*, 48, June, 1958, p. 261-197.

Myers, Stewart C., "The capital structure puzzle", *Journal of Finance*, 39, 1977, p. 575-592.

Myers, Stewart C., and Nicholas S. Majluf, "Corporate financing and investment decisions when firms have information that investors do not have", *Journal of Financial Economics*, 13, 1984, p. 187-221.

Roll R., « A Critique of the Asset Pricing Theory's Tests; Part I: On Past and Potential Testability of the Theory », *Journal of Financial Economics*, vol. 4, n° 2, 1977, p. 129-176.

Ross S., « The arbitrage Theory of Capital Asset Pricing », *Journal of Economic Theory*, 1976, p. 341-360.

Sharpe W., « Capital Asset Prices: A Theory of Market Equilibrium under Conditions of Risk », *Journal of Finance*, vol. 19, n°3, 1964, p. 425-442.

Tobin J., « Liquidity Preference as Behavior Towards Risk », *The Review of Economics Studies*, vol. 25, 1958, p. 65-86.

Some others references will be provided in class.

V - Course Evaluation

1/ Written exam and problems and questions in class:

Duration: 2 hours for the written exam

Language: The exam has to be written in English

During the exam, the students cannot access any material. They are allowed to use calculators.

2/ Homework by group of 3 to 4:

Students will pick one topic and write a document (10 pages max) with an introduction presenting a problematic, argumentation, and conclusion. The document must include an updated bibliography (articles quoted in the text). A list of topics will be provided in class.