Topics in Financial Economics: Syllabus

Central European University
Department of Economics and Business

Winter 2018/2019

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Instructors

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General Information

**Course level:** This is an Economics PhD course open to Economics MA students. Students from other programs need to seek the instructors’ written permission before registering for the course.

**Credits:** 4 credits (8 ECTS credits).

**Prerequisites:** Financial Economics (ECBS 6015)

**Schedule:** TBA

see https://sites.google.com/a/ceucon.org/course-schedules/econ-ma-2nd-yr

Course Description

This course is designed to introduce you to the frontiers of research in financial economics. It focuses on theoretical research and is highly technical. The course should prepare you to understand and critically evaluate research in the area and help you identify potential areas of contribution. We cover topics in OTC markets, high frequency trading, blockchain, financial crises, Credit Default Swaps, liquidity, bubbles. While the lectures focus on theory, we will discuss how the theory relates to stylized facts and empirical work. The course contains a mix of lectures and paper discussions.

Course Requirements and Assessment

There will be two homework assignments, and a referee report to write. There will be no exam.

While you should tackle the assigned problems first on your own, you are encouraged to discuss them with your fellow classmates. Solutions can be submitted in groups of up to three students. The name of all students in the group should be clearly indicated and all students in the groups should be familiar with the solution they handed in and be ready to discuss it in class. All calculations in the homework should be done using Mathematica and the main results and the discussion thereof should be handed in in pdf format (the use of \LaTeX is strongly encouraged). Mathematica is
available on all computers in the Economics PhD lab and in the Orange lab (you can find the icon under ZEN if you log in under your own name). Please close Mathematica when you are done with it, as there are a limited number of licences. Homework should be uploaded online (both the pdf and the Mathematica file) by the deadline. Solutions to the homework assignments will be graded. We do expect active participation in class, your participation will depend on how actively you participate in discussions, not simply on your attendance.

You will have to write a referee reports for the course, these can also be done in groups of 2-3 students. The papers you can do a report for will be given in advance, though you can also make suggestions. You should first read the paper and then discuss it with fellow students to come up with the points you want to make. See the course website on tips about how to write a good referee report.

Slides will be posted in advance on the CEUlearning site and it is good practice to print them before class and take notes on them during class. Discussion papers will be announced in advance and you are expected to read the paper and think about it in detail before class (there will be 4-6 during the semester).

Your letter grade will be assigned according to departmental guidelines and will be weighted in the following way:

- Homework/project 50%
- Referee report 20%
- Discussion articles 20%
- Participation 10%

**Important dates** (mark it in your calendar)

- TBA: Assignment 1 due before class
- TBA: referee report due before class
- TBA: Assignment 2 due before class

**Course outline and reading list**

The topics are tentative and will be updated throughout the course. Readings marked by (*) are fully optional (you should definitely have a look if you want to do research in the area), all other readings are required. Required reading does not mean you have to read the paper/book from beginning to end but that you have to understand the essence of it. Whether you understand the essence from the slides or by reading the article is up to you. Reading marked by ♦ is for class discussion and should be read before the class in detail (focus on the introduction, the setup and the main result). Journal articles are available electronically on the course website.

1 **High Frequency Trading**
   3 lectures: (Lee)

• Thierry Foucault, Roman Kozhan, and Wing Wah Tham. Toxic Arbitrage. The Review of Financial Studies, 30(4):1053–1094, April 2017


2 Market Fragmentation and Venue Choice
3 lectures: (Lee)


3 Price Discovery Across Markets
3 lectures: (Lee)


• * Tomy Lee. Latency in Fragmented Markets. Working Paper, June 2017

4 FinTech: Blockchain and P2P Lending
3 lectures: (Lee)


• Tetyana Balyuk. Financial Innovation and Borrowers: Evidence from Peer-to-Peer Lending. Working Paper, April 2018

5 Liquidity supply
3 lectures: (Zawadowski)


6 Collateral constraints
2 lectures: (Zawadowski)

- * Or Shachar Tobias Adrian, Michael J. Fleming. Market liquidity after the financial crisis. VOXeu, 2017
7 Bubbles and Crashes
2 lectures: (Zawadowski)


8 Credit default swaps
2 lectures: (Zawadowski)


9 The Financial Crisis of 2007-08
2 lectures: (Zawadowski)


