



**MANCHESTER BUSINESS SCHOOL  
THE UNIVERSITY OF MANCHESTER**

**BMAN71111 ESSENTIALS OF FINANCE  
(Prof. Massimo Guidolin)**

**Basic Information**

*E-mail:* Massimo.Guidolin@mbs.ac.uk  
*Office hours:* Tuesday 9:30 – 11:30 or email me.  
*Lecture times:* Monday, 3-5 pm, Roscoe B

*Mode of assessment:* 100% unseen examination.

**NOTE: Attendance at lectures is compulsory. Lectures will cover model implications and provide illustrative examples not covered by the textbook.**

**Aims**

The aims of this course are to introduce students to the structure of the main theories that are popular in empirical and applied finance, as well as provide an understanding of how asset-pricing models are formally constructed.

**Learning Outcomes**

*On completion of this unit successful students will have:*

- An understanding of the basic theoretical foundations of the mainstream asset-pricing models.
- A systematic knowledge and understanding of issues at the forefront of research and practice in asset-pricing theories, including associated empirical evidence.
- An understanding of the limits of such knowledge and of the effects of this on analyses and interpretation.
- Have the ability, with further investment, to remain at the forefront of research in finance.
- Correctly cite, acknowledge and reference sources.
- Appreciate alternative viewpoints on asset pricing issues.

**Assessment:**

The module is assessed via a two-hour unseen examination.

**Main text:**

Cuthbertson, K., and D., Nitzsche, Quantitative Financial Economics: Stocks, Bonds and Foreign Exchange, 2nd Edition, Wiley.  
ISBN: 0-470-09171-1, Paperback, 736 pages, January 2005

Although this text does not fully cover the material delivered in this course unit, it is strongly advised that you purchase this text.

The main reading is given in the syllabus below. Please note that this list is not a fully comprehensive and that additional references may be given in lectures.

Teaching materials, handouts, datasets, etc. will be available from the course unit website, on Web CT. Additional announcements and discussion questions will be posted on the forum. You should direct all questions regarding course content to the forum.

**Assumed knowledge:**

From the beginning of the course unit it is assumed that you have a working understanding of basic concepts in economics (e.g., demand and supply, utility functions, indifference curves), introductory financial management (e.g., present values, discount factors, returns), and statistics (e.g., expectations, variance, correlation). These are covered in virtually every course in economics and statistics at introductory levels. The first two hours of the course will be used to review these notions, while notes will be posted. You are warmly invited to make sure you understand all of these pre-requisite concepts.

**Syllabus****Section I : Basic Concepts in Finance and Statistics****Topic I: Returns on Stocks, Bonds and Real Assets; Discounted Present Values**

Cuthbertson and Nitzsche, ch. 1.1-1.2.

**Topic II: Utility and Indifference Curves; Asset Demands; Intertemporal Utility; Investment Decisions and Optimal Consumption; Mean-Variance Model**

Cuthbertson and Nitzsche, ch. 1.3-1.6 + Appendix to ch. 1.

**Topic III: Lognormality and Jensen's Inequality; Unit Roots, Random Walk and Cointegration; Monte Carlo Simulation and Bootstrapping.**

Cuthbertson and Nitzsche, ch. 2.1-2.3.

**Section II : Mean-Variance Portfolio Theory****Topic I : Mean-Variance Model**

Cuthbertson and Nitzsche, ch. 5.1-5.2.

**Topic II : International Portfolio Diversification**

Cuthbertson and Nitzsche, ch. 6.1-6.4.

**Section III : The Capital Asset Pricing Model****Topic I : Derivation of the Model**

Cuthbertson and Nitzsche, ch. 5.3-5.4 + Appendices I and II to ch. 6.

**Topic II : Applications and Extensions**

Cuthbertson and Nitzsche, ch. 7.1-7.3.



Week 8: NO CLASS

Week 9: Monday November 27                      Lecture: 15.00 – 17.00 Roscoe B

Week 10: Monday December 4                      Lecture: 15.00 – 17.00 Roscoe B

Week 11: Monday December 11                      Lecture: 15.00 – 17.00 Roscoe B