

Financial Economy

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Course Logic

Stylized Facts &
Random Walks
Theory

Birth of Modern
Portfolio Theory

CAPM, APT, SDF

Models for asset
returns

Derivatives
Pricing

Financial
Economics

Behavioral
Finance, Rational
Bubbles and
Learning

Equity Premium
Puzzle

Market Efficiency
and Stock
Predictability

Extreme Value
Theory

Models for
Volatility

Black and Scholes



Merton



ROBERT C. MERTON
Massachusetts Institute
of Technology

MYRON S. SCHOLES
Stanford University

What is a futures/forward?

- Months
- Underlying
- Financial
- Commodity

What is an option?

- Strike
- Put
- Call
- American
- European

The price of an option

- Time
- Volatility
- Price
- Strike

Ways to price an option

- Binomial tree
- Black-Scholes
- Monte-Carlo