Selected Courses in Public Policy and Finance
2015-2016

For more information, please visit registrar.princeton.edu/course-offerings

Fall 2015 – Undergraduate

WWS 340
The Psychology of Decision Making and Judgement
Eldar Shafir
An introduction to the logic and research findings underlying decision-making and judgment under uncertainty. The focus is on the contrast between the rational theory of judgment and choice, and the psychological principles that guide decision behavior, often producing biases and errors. Among other topics, we will consider political, medical, and financial decision-making, poverty, negotiation, and the law, along with the implications of the findings for the rational agent model typically assumed in economics, throughout the social sciences, and in policy making.

ECO 342
Money and Banking
Wenli Li
This course explores the role that money, financial markets and institutions, and monetary policy play in shaping the economic environment. We investigate why these markets and institutions arise and may lubricate the resource allocation analytically (rather than descriptively), using tools of economic theory.

ECO 353
International Monetary Economics
Mark A. Aguiar
This course studies topics in open-economy macroeconomics and international finance. Topics include Exchange Rates, Current Account Imbalances, Inflation, Sovereign Debt, and Open Economy Macroeconomics. The course will include economic theory as well as several applications.

ECO 362
Financial Investments
Yacine Ait-Sahalia, Harrison Hong
This course surveys the field of investments with special emphasis on the valuation of financial assets. Issues studied include how portfolios of assets should be formed, how to measure and control risk, how to evaluate investment performance and how to test alternative investment strategies and asset pricing models.
ECO 372
Economics of Europe
Silvia Weyerbrock
Europe is at a crossroads. Political and economic integration in the European Union (EU) exceeds levels reached in other parts of the world. Economic integration not only affects trade but agriculture, competition, regions, energy, and money. Most euro areas economies have been struggling with interlocking crises involving debt, banking and growth, which challenge the viability of monetary union and threaten much of what has been achieved since 1945. This course studies economic integration in Europe, the ongoing euro crisis, and economic challenges facing EU member countries. It uses economic analysis to study policy issues.

ECO 464/FIN 519
Corporate Restructuring
O. Griffith Sexton
This course applies topics from microeconomics (ECO 310) and corporate finance (ECO 363) to study corporate restructuring. Topics include mergers, acquisitions, joint ventures, divestiture and share repurchases. Each of these is discussed in the context of the relevant economic theory, institutional and regulatory environment, and with a focus on shareholder value.

ECO 466/FIN 521
Fixed Income: Models and Applications
Yacine Ait-Sahalia, Min Wei
This course will deal with no-arbitrage models of contracts based on interest rates including bonds, forward and future contracts, swaps, options and other derivatives. We will develop the theory of arbitrage-free pricing of financial assets in discrete and continuous time, as well as many special models that can be used to price and hedge fixed income securities.

ECO 467
Institutional Finance, Trading, and Markets
Stephan Luck
This course covers important theoretical concepts and recent developments in asset pricing under asymmetric information, financial intermediation, behavioral finance and market microstructure. Topics include market efficiency, liquidity crises, asset price bubbles, herding, risk management, market design and financial regulation. The course examines these concepts theoretically as well as via a simulation software, whereby classic decision-making settings are realistically revisited in a competitive classroom environment.
ECO 467
Behavioral Finance
Harrison Hong
Traditional finance typically considers that financial markets are efficient because investors are rational and maximize their expected utility from consumption. This course departs from this view and discusses how inefficiencies arise due to psychology and limits to arbitrage. The psychology of investors shapes their preferences and may impair their judgment. Whether these psychological factors have an impact on financial markets ultimately depends on arbitrageurs' ability to fight against mispricings. These issues will be covered through lectures and class games and will allow discussions about cognitive illusions and speculative bubbles.

ECO 494/FIN 594
Chinese Financial and Monetary System
Yaxin Duan, Wei Xiong
With its rapid economic growth in the past three decades, China already has the world's second largest economy. Meanwhile its financial markets are also being quickly liberalized and integrated with the rest of the world. As the current trend continues, there are growing interests to learn and understand the workings of China's financial and monetary systems. This course aims to serve this objective with a particular emphasis on understanding the role provided by the financial system in facilitating China's economic development, in addition to the investment opportunities and risk presented by the system to the outside world.
Fall 2015 – Graduate

WWS 524
**Advanced Macroeconomics: Domestic Policy Issues**  
*Alan S. Blinder*

This course is about the economics and some of the politics of central banking, especially monetary policy. Special emphasis is given to central banks as unique policymaking institutions and, especially, to the Federal Reserve System, although other central banks are mentioned frequently. Since the focus is on monetary policy, the course presupposes a working knowledge of the relevant macroeconomics, but particular aspects thereof are taught in the course. Attention is paid to the causes, consequences, and central bank behavior during and since the recent financial crisis.

WWS 542
**International Economics**  
*Silvia Weyerbrock*

Survey course in international economics for non-specialists. The first half covers microeconomic topics such as trade theory and policy, multilateral trade negotiations and regional economic integration. The second half addresses macroeconomic topics such as current account imbalances, exchange rates, and international financial crises. The course stresses concepts and real-world applications rather than formal models. Prerequisite: 511b and 512b (concurrently).

WWS 591D
**Policy Workshop-Poland and the Euro**  
*Marzenna James and Ashoka Mody*

At some point, Poland will need to confront of whether or not to join the euro. Legally, there is an obligation but like the Czech Republic, Poland could keep saying, 'yes, but not now.' This workshop will assess the value to Poland of joining the euro.

WWS 591G
**Policy Workshop-Foreign Direct Investment in Africa**  
*Iqbal M. Zaidi*

This workshop will examine the composition of Asian (mostly Chinese, but also Indian, Malaysian, Indonesian) Foreign Direct Investment (FDI) in Zambia, and the implications of that FDI composition for the short-term macroeconomic stability and long-term developmental prospects for Zambia.
WWS 591G  
**Policy Analysis: State and Local Finances (Half-Term)**  
**Richard F. Keevey**  
Examines budgeting and finance at the state and local level of government. Topics include: budget structure and process; decision makers within the political and economic environment; debt, capital planning and bond financing; revenue structures supporting expenditures. Tax policy and associated tradeoffs between tax equity and efficiency and spending and program needs are also examined. Two case studies are utilized – one related to state and local tax policy and one related to budgetary decision-making.

ECO 516  
**Behavioral Economics**  
**Roland J. Benabou**  
This course covers a variety of topics and models that incorporate findings and concepts from psychology into economic analysis. The course addresses both experimental evidence and formal modeling. Themes studied may include social preferences (fairness, reciprocity), intrinsic vs. extrinsic motivation, self-control, motivated beliefs (overoptimism, wishful thinking), reference-dependent preferences (loss aversion, prospect theory), imperfect memory and attention, and bounded rationality (cognitive limitations, choice overload, satisficing).

ECO 525  
**Asset Pricing**  
**Markus K. Brunnermeier, Motohiro Yogo**  
Introduction to asset pricing covering theory in both continuous and discrete time to study dynamic portfolio choice; derivative pricing; the term structure of interest rates; and intertemporal asset-pricing and consumption-based models. Pre-requisites: All required courses in micro, macro and econometrics at the first-year PhD level.

ECO 553  
**International Monetary Theory and Policy I**  
**Mark A. Aguiar**  
This sequence (with ECO 554) develops core models of international finance and open-economy macroeconomics, and surveys selected current research topics in the field. Topics treated in the first semester include: the intertemporal approach to the current account; the determination of real exchange rates, and purchasing power parity; international CAPM and uncovered interest rate parity; sovereign debt crisis; speculative attacks and liquidity crises; international risk sharing and capital flows, home bias, and the stability of the international financial system.
FIN 501
**Asset Pricing I: Pricing Models and Derivatives**
Markus K. Brunnermeier
An introduction to the modern theory of asset pricing. Topics include: No arbitrage, Arrow-Debreu prices and equivalent martingale measure; security structure and market completeness; mean-variance analysis, Beta-Pricing, CAPM; and introduction to derivative pricing.

FIN 567
**Institutional Finance, Trading and Markets**
Stephan Luck
Institutional Finance examines how finance professionals create value through the practical application of the theory of finance. The course presents a unified framework for thinking about financial decisions focused on the perspective of managers of financial institutions. Students should emerge from the semester capable of valuing a broad range of financial instruments and investment opportunities. They will be able to identify, implement, and manage risks associated with a wide variety of investment strategies.

FIN 568
**Behavioral Finance**
Harrison Hong
Traditional economics and finance typically use the simple "rational actor" model, where people perfectly maximize, and efficient financial markets. We will present models that are psychologically more realistic than this standard model. About 30% of the course will be devoted to economics, 70% to finance. Applications to economics will include decision theory, happiness, fairness, and neuroeconomics. Applications to finance will include theory and evidence on investor psychology, predictability of the stock market and other markets, limits to arbitrage, bubbles and crashes, experimental finance, and behavioral corporate finance.
Spri

ng 2016 – Undergraduate (to be confirmed)

WWS 383
Policy Aspects of Federal and State Budgeting and Fiscal Decision-Making
Richard Keevey
The purpose of this course is to discuss the academic and practical aspects of state and federal finance. The course will discuss the major financial processes of governments - budgeting, taxing, raising capital, managing debt, financing pensions, and forecasting long-term trends. Although the total expenditures by state and local governments in this country approximates the amount spent by the federal government, there are vast differences in the way each level of government does its budgets, raises its revenue, issues its debt, and manages its finances; this course will analyze those differences and their impact.

WWS 466
Financial History
Harold James
The course examines the history of financial innovation and its consequences. It examines the evolution of trading practices, bills of exchange, government bonds, equities, banking activity, derivatives markets, and securitization. How do these evolve in particular state or national settings, how are the practices regulated, how do they relate to broader development? What happens as financial instruments are traded across state boundaries, and how does an international financial order evolve? What are the effects of international capital mobility? How is resulting conflict and instability managed, on both a national and international level?

ECO 348/WWS 303
The Great Recession: Causes, Consequences, and Remedies
Paul Krugman
This course covers topics related to the current economy and current economic policy. The course will begin by reviewing the causes of the recession that began in December 2007. It will concentrate on consumer behavior, financial markets, unemployment, and the housing sector. The role of public policies in contributing to the economic crisis and in ending the crisis will be explored. The state of the recovery will be assessed and monitored. The course will also consider current economic policy priorities.
ECO 361
Financial Accounting
Roman L. Weil
The course deals with the judgments required to analyze and communicate information about economic events of a firm through financial accounting. The first several classes deal with concepts of asset, liability, owners’ equity, revenue, expense and the accounting processes that lead to the financial statements. Next follows an analysis of the components of financial statements: long-term liabilities, revenue recognition and income management, inventories, long-term assets, impairment and leasing chaos, off-balance sheet financing, and current controversies such as income tax inversions. Rudiments of financial analysis and valuation.

ECO 363
Corporate Finance and Financial Institutions
Yuliy V. Sannikov
This course investigates the financing decisions of companies and financial institutions in the wider context of the workings of financial markets. Topics include capital budgeting, capital structure choice, risk management, liquidity, corporate governance, and the interactions between corporate finance and the workings of financial institutions and markets.

ECO 462
Portfolio Theory and Asset Management
TBD
This course covers a number of advanced topics related to asset management and asset pricing. Topics include mean-variance analysis, CAPM, APT, market efficiency, delegated money management, stock return predictability, bubbles and crashes, social interaction and investor behavior, security analysts and investor relations, and mutual fund performance and organization.

ECO 465
Options, Futures and Financial Derivatives
TBD and Wei Xiong
The course offers an introduction to financial derivatives and the models used to price them. Pricing techniques include the Black-Scholes formula (awarded 1997 Nobel Prize in economics), as well as extensions to accommodate time-varying volatility and more complex contracts. We also devote great attention to discuss the roles played by derivatives in shaping financial markets and the real economy by using commodity markets as a focal point. This course is technical by nature, and requires extensive use of calculus, statistics, and spreadsheet programming.
Spring 2016 – Undergraduate (to be confirmed, cont.)

ECO 491
Cases in Financial Risk Management
TBD
This course will teach students about financial risk management through the lens of the recent financial crisis. Topics covered will include market risk, credit risk, liquidity risk, and systemic risk. Students will draw on their background in economics, finance, probability theory and statistics. The class will be in seminar format and active participation in the discussion is encouraged.

ECO 492
Asian Capital Markets
Jean-Christophe de Swaan
This course explores the increasing weight of Asia in global financial markets and its implications. It frames the discussion in the context of the globalization of financial markets, with emphasis on concepts of economic development, institutional reform of markets, and public and private market investments. Discussions combine analysis of historical trends and recent data and events with insights from practical experience in Asian markets. Course explicitly considers China’s gradual shift toward a capital market-based financial system and its implications, as well as the potential revival of Japanese capital markets.

ECO 493
Financial Crises
William H. Janeway and Wei Xiong
This course will consider market bubbles and financial crises from two distinct angles. The first half will focus on bubbles in the public equity market, with particular emphasis on the productive role that financial speculation can play in the development and deployment of innovative technologies, complementing the role of the state. The second half focuses on the economic theory and empirical evidence related to the major bubbles and crises in the past century and with a particular attention on the recent crisis that began in August 2007.
Spring 2016 – Graduate (to be confirmed)

WWS 505
Financial Management in the Corporate and Public Sectors
Uwe E. Reinhardt
Designed to introduce graduate students in public and international affairs to certain principals and analytic tools widely used in the financial management of organizations, privately or publicly owned. Course is based on the premise that future civil servants should be familiar with this subject matter, either because they may be involved in the financial management of public agencies, or negotiate financial contracts with the private sector, or regulate financial management in the private sector.

WWS 582c
Topics in Economics - Growth, International Finance & Crises
Ashoka Mody
This is a macro, international finance-oriented development course, which will focus on the political economy of policy decisions. It will cover the following themes:
1. GDP growth and volatility;
2. The size, composition, and influence of international capital flows;
3. Sudden stops in capital flows and financial crises;
4. The domestic and multilateral response to crises, including the role of fiscal adjustment, external financing, and debt restructuring.
5. We will draw on several country case-studies and students will be encouraged to undertake short research assignments to deepen their own policy interests.

WWS 582f
Topics in Economics - House of Debt: Understanding Macro & Financial Policy
Atif Mian
Why do severe recessions happen? Could we have prevented the Great Recession and its consequences? And what actions are needed to prevent such crises going forward? We undertake an empirical exploration of these questions in this course and debate the various macro and financial policy questions that arise. Our discussions will be strictly disciplined by data and evidence. The course will analyze the role of debt in generating the Great Recession and the Great Depression, as well as the current economic malaise in Europe. The course is built around the new book, 'House of Debt' by Mian and Sufi.
Spring 2016 – Graduate (to be confirmed, cont.)

WWS 594f
Topics in Policy Analysis (Half-Term) - Political Economy of Education Finance
Thomas Romer
Providing primary and secondary education absorbs over 20% of state and local government expenditures in the U.S. The magnitude of spending needs and the large disparities in economic capabilities across school districts create great challenges for financing public education. Financing schools has become an arena for debate not only about education but also about redistribution. Course studies the political, legal, and economic challenges involved in education finance and the diverse ways being attempted to cope with them.

ECO 526
Corporate Finance
Maryam Farboodi, Stephan Luck and Atif Mian
Introduction to corporate finance covering theories and empirical evidence about principal-agent models of firm managerial structure, takeover bids, capital structure, corporate governance; regulation of financial markets; financial markets and institutions with a focus on asymmetric information, transaction costs, or both; dynamic models of market making; and portfolio manager performance evaluation. Pre-requisite: ECO 525.

FIN 502
Corporate Finance and Financial Accounting (FIN Graduate Students only)
Atif Mian
Major topics in modern corporate finance. We will study investment policy (investment decision rules, project valuation, cost of capital) and financial policy (mostly capital structure decisions). Additional topics (private equity, bankruptcy and reorganization, merger and acquisitions) will be covered if time permits.

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