



UNIVERSITÀ
DEGLI STUDI DI MILANO-BICOCCA

COURSE SYLLABUS

Financial Economics M

2627-2-F8206B027

Learning objectives

Learning area

Financial Economics is a core component of the broader economics and finance curriculum and is designed to complement and extend the insights offered in **Macroeconomics M** and **Risk Management**. Taken together, these courses provide students with a comprehensive and integrated understanding of how financial markets operate within the broader economic system. This course explores the mechanisms through which financial markets allocate resources, the role of asset pricing, the behavior of financial intermediaries, and the transmission of monetary and fiscal policy through financial channels.

Learning objectives

By the end of the course, students will be able to:

Analyze the origin and structure of financial risk in capital markets, with particular emphasis on how uncertainty and information asymmetries shape financial decision-making.

Understand and explain the mechanisms through which asymmetric information—such as adverse selection and moral hazard—can lead to market failures in credit and financial markets.

Evaluate corporate governance structures, identifying how incentive conflicts between managers, shareholders, and creditors influence financial contracting and firm behavior.

Assess the design of credit agreements under conditions of information asymmetry, including the use of covenants, collateral, and screening mechanisms to mitigate lender risk.

Understand the role of financial intermediaries—especially banks—in facilitating efficient resource allocation, reducing information gaps, and managing liquidity and maturity transformation.

Analyze the competitive structure and stability of the banking sector, including how systemic risk and macroeconomic shocks affect bank behavior and resilience.

Interpret and apply the principles of prudential regulation, including capital requirements, liquidity ratios, and stress-testing frameworks, with reference to Basel regulatory standards.

Critically evaluate crisis resolution mechanisms in the financial sector, including tools such as bank bail-ins, resolution regimes, and central bank interventions.

Quantify and interpret the risk-return profile of major financial contracts, using theoretical models and empirical tools to assess portfolio exposure and financial fragility.

Develop a comprehensive understanding of the functioning of credit markets, both direct (capital markets) and intermediated (bank lending), and the interaction between market forces, institutional frameworks, and regulation.

Contents

This course in Financial Economics provides a comprehensive introduction to the economic foundations of financial markets and institutions, with a particular focus on the role of information, credit, and intermediation in shaping modern finance. The course blends theoretical models with empirical insights to analyze how financial systems allocate resources, manage risk, and respond to frictions such as information asymmetries and regulatory constraints.

A central reference for the course is *Investments* by Bodie, Kane, and Marcus, which offers a rigorous and accessible framework for understanding key concepts in financial markets, valuation, and risk management. The textbook is used extensively, particularly in the first part of the course, to support the study of investment decisions, capital structure, and financial instruments.

Detailed program

Key topics include:

Principles of Corporate Governance: Examining agency problems, shareholder rights, and the mechanisms that align management with investor interests.

Information Asymmetries and Credit Agreements: Analysis of how adverse selection and moral hazard affect lending relationships and contract design.

Credit Rationing and the Structure of Financial Contracts: Insights into why credit markets do not always clear and how lenders respond to risk under imperfect information.

Hierarchy of Funding Sources and Capital Structure: Discussion of the pecking order theory, internal vs. external finance, and implications for firm behavior.

Underpricing in Initial Public Offerings (IPOs): Investigating the informational and institutional reasons behind IPO underpricing, drawing on empirical evidence and market data.

The Role of Banks as Financial Intermediaries: Understanding the economic functions of banks in mobilizing savings, screening borrowers, monitoring projects, and managing liquidity.

Banking Sector Structure and Competition: Evaluating the trade-offs between stability and competition in banking systems, including the implications for credit supply and systemic risk.

Cost of Bank Financing and Relationship Lending: Analysis of loan pricing, risk-based interest rates, and the dynamics of borrower-lender relationships.

Bank Credit vs. Direct Credit Markets: Comparing intermediated and market-based finance, with emphasis on their relative advantages in different institutional environments.

Capital Regulation and Credit Risk Transfer: Introduction to capital requirements and how banks use securitization and credit derivatives to manage risk exposure.

Macroeconomic Shocks and Financial Fragility: Exploring the effects of monetary policy, recession, and inflation on banking stability and credit conditions.

Resolution of Banking Crises: From traditional bailouts to modern bail-in mechanisms, with a focus on regulatory evolution and case-based analysis.

Throughout the course, theoretical lectures will be complemented by applied sessions using data, case studies, and financial news. Students will engage with selected chapters from Investments, especially those covering equity and bond markets, risk-return trade-offs, financial intermediaries, and market efficiency. Additional readings will include academic articles and policy documents to deepen the empirical grounding.

Prerequisites

It is strongly recommended to have passed the exam of Microeconomics.

The course is not intended for undergraduate students participating in the Erasmus Program.

Teaching methods

The course includes a total of 63 hours of teaching, which are divided into 42 hours of traditional frontal lessons and 21 hours of interactive lessons.

A portion of these lessons — not exceeding 15% of the total teaching hours — may be delivered remotely, in accordance with the academic calendar and specific scheduling for the 2026–2027 academic year.

The entire course will be conducted in English.

Assessment methods

The final assessment will consist of a written examination. The aim of the exam is to evaluate the student's overall understanding of the course content and their ability to apply the acquired knowledge in both theoretical and applied contexts.

Specifically, the exam will assess:

Knowledge of the material: Students will be expected to demonstrate familiarity with key theoretical models, formal results, and proofs presented throughout the course.

Analytical and problem-solving skills: The exam will include quantitative exercises and conceptual questions requiring the application of financial models to stylized problems.

Economic reasoning and interpretation: Students should be able to apply economic intuition and formal tools to interpret financial phenomena and comment on policy or institutional implications, also through the discussion of case-based examples.

The written format allows for the integration of theoretical, analytical, and interpretive components, reflecting the structure and learning objectives of the course.

Textbooks and Reading Materials

1. Bodie, Kane and Marcus, Investments, (13th Edition, 2024).
2. Macho-Stadler Perez Castrillo J.D., An introduction to the Economics of Information: Contracts, Oxford University Press, 1997 (all);
3. Tirole J., The Theory of Corporate Finance, Princeton Press, 2006, Cap. 2, 6.

Teaching material provided by the professor.

Semester

First Semester

Teaching language

English

Sustainable Development Goals

RESPONSIBLE CONSUMPTION AND PRODUCTION
