The Structure of Financial Economics

Financial Economics

Corporate Finance  Asset Pricing
The Structure of Financial Economics

- Financial Economics
  - Corporate Finance
  - Asset Pricing
    - No-Arbitrage Theories
    - Equilibrium Theories
No Arbitrage Opportunities Across Markets

No Arbitrage Opportunities Across Markets

Arbitrage Opportunities Across Markets?

Arbitrage Opportunities Across Markets


An average day in our data set has about 800 arbitrage opportunities, while an average arbitrage opportunity has quantity of 14 ES lots (7,000 SPY shares) and profitability of 0.09 in index points (per unit traded) and $98.02 in dollars. The 99th percentile of arbitrage opportunities has a quantity of 145 ES lots (72,500 SPY shares) and profitability of 0.22 in index points and $927.07 in dollars.

Total daily profits in our data are on average $79,000 per day, with profits on a 99th percentile day of $554,000. Since our SPY data come from just one of the major equities exchanges, and depth in the SPY book is the limiting factor in terms of quantity traded for a given arbitrage in nearly all instances (typically the depths differ by an order of magnitude), we also include an estimate of what total ES-SPY profits would be if we had SPY data from all exchanges and not just NYSE. We do this by multiplying each day’s total profits based on our NYSE data by a factor of \(1 / \text{NYSE’s market share in SPY}\), with daily market share data sourced from Bloomberg.\(^{14}\) This yields average profits of $306,000 a day, or roughly $75 million a year. We discuss the

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- **Financial Economics**
  - Corporate Finance
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    - No-Arbitrage Theories
      - Arrow-Debreu Theory
    - Equilibrium Theories
      - Capital Asset Pricing Model (CAPM)
      - Arbitrage Pricing Theory (APT)
      - Arrow-Debreu Theory
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Corporate Finance

Microeconomic Theory of Consumer Decision-Making Under Risk and Uncertainty

Asset Pricing

No-Arbitrage Theories
- Arrow-Debreu Theory
- Arbitrage Pricing Theory (APT)

Equilibrium Theories
- Capital Asset Pricing Model (CAPM)
- Arrow-Debreu Theory
Course Administration

Course webpage:

http://irelandp.com/econ3379.html

Notes/slides, handouts, problems sets and solutions, old exams.
Course Administration

Book:


Recommended, but not required.

Third edition is freely available in electronic form via BC libraries.
Course Administration

Grading:

Homeworks: 20%

Midterm (Tuesday, March 17): 40%

Final (Thursday, May 7): 40%
Course Administration

Academic integrity:

http://www.bc.edu/integrity

It’s fine to work with other students on the homeworks, but please hand in our own answers for the purposes of grading.

Your work on the midterm and final should be yours and yours alone.