Topics in Finance

Financial markets with heterogeneity
PRELIMINARY SYLLABUS
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It is a fact that investors belong to different groups, both in terms of access to markets, or wealth, or tastes and beliefs. They trade in markets that operate with frictions and behave differently. To mention a few types of heterogeneity, beyond wealth, some investors are pessimist, some optimist; some do not participate at all in stock markets, some do. Some have preferences for ESG stocks, some do not care.

Traditional asset pricing models with a representative agent do not do easily justice of this heterogeneity.

This course examines models of financial markets with four types of heterogeneity:
- in access to assets
- in wealth and roles (intermediaries vs households)
- in beliefs and expectations
- in ESG preferences

These features permit to investigate the role of intermediaries, which should not exist in a frictionless, efficient market, to cope with some empirical asset pricing puzzles and to understand the mixed evidence on specific, although increasingly important, assets (ESG ones, for instance)

Syllabus
The course material consists of original articles, and eventually selected chapters from "The Economics of Continuous-time Finance" by B. Dumas and E. Luciano, MIT Press. Assignments (mainly model replications/sensitivity) will be given and will be graded as part of the final exam.

Part 1
Markets with restricted participation
Lack of participation: what do we know?
Market models with restricted participation
Equilibrium
Calibration to market data
Empirical puzzles explanations

Part 2
Markets with intermediaries
Households vs institutional investors and intermediaries: what do we know?
The role of the distribution of wealth in financial markets
Models of markets with intermediaries
Cyclical behavior of market participants
Volatility paradoxes


Part 3
Markets with heterogeneous expectations
Heterogeneity in opinions: what do we know?
Financial market models with difference of opinions
Portfolio choice
Bayesian updating, disagreement and its effects
Equilibrium and consensus beliefs


Part 4
Markets with ESG assets
ESG assets: what do we know?
Financial market models with different sensitivity to ESG factors
Portfolio choice
Equilibrium and empirical evidence


Exam
Assignments and problems sets on parts 1 to 4 will be distributed.
Grading: 2/3 for problem sets, 1/3 oral.