Incomplete markets

Teemu Pennanen[1]

[1] King's College London

The minicourse gives an introduction to financial economics in terms of basic optimization theory. We provide a unified treatment of financial risk management, accounting, and asset pricing in a simple discrete-time model that avoids many of the technicalities associated with traditional continuous-time models. This leaves room for practical considerations that are sometimes neglected in more mathematical texts. In particular, the approach allows for nonlinear illiquidity effects and portfolio constraints which are significant in practice but invalidate much of the classical theory of financial mathematics.