

14M019

3 ECTS

Empirical Finance

Overview and Objectives

This course provides an introduction to selected topics in empirical finance focusing on tests of asset pricing models, event studies, and the empirical analysis of stock market anomalies and trading strategies. We begin with an introduction to asset pricing and some commonly used factor models. We then turn to the efficient markets hypothesis and stock market anomalies with a focus on momentum trading. Next, we introduce the event study methodology that has wide applications in finance and economics. Finally, if time permits, we review the methodology and current research on predictability of asset returns. The course concludes with presentations by students of recent research on the topics covered. An overview of the framework that underpins the topics in this course is Campbell (2015).

Course Outline

The outline of the course is:

1. Background: Financial Markets: Trading & Structure.

Harris, Lawrence E, 2015 Trading and Electronic Markets: What Investment Professionals Need to Know. (pdf available at: <https://www.cfainstitute.org/en/research/foundation/2015/trading-and-electronic-markets-what-investment-professionals-need-to-know>)

2. Introduction to Asset Pricing & Econometric Tests of Asset Pricing Models: Introduction to the Stochastic Discount Factor representation, Expected Return-Beta Representation, the CAPM and the Fama-French and other factor models. Brief overview of Consumption-based models. Tests of asset pricing models; Time Series & Cross-Sectional Regressions

3. Introduction: Stock Market Anomalies.

The EMH, forms of market efficiency and stock market “anomalies” like the momentum and value-growth among others.

4. Testing the Semi-Strong Form Efficiency: Event Studies in Finance and Economics

Review of Event Study Methodology and selected applications.

5. Present Value Models and Return Predictability (if time permits).

Review of selected developments using recent work on return predictability.

Assessment

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This will be based on a Take Home assignment which requires extracting data from CRSP/COMPUSTAT and other sources followed by empirical analysis of the momentum trading strategy using this data. Full details will be provided at the start of the course.

Main References

Course materials will include lecture notes/slides and selected recent papers in empirical methods.

References:

Campbell, J., 2018, Financial Decisions and Markets A Course in Asset Pricing, Princeton University Press.

Bali, T.G., R. F. Engle, S. Murray, 2016, Empirical Asset Pricing: The Cross Section of Stock Returns John Wiley & Sons.

Cochrane, J., 2005, Asset Pricing, Princeton University Press.

Campbell, John Y, 2014, Empirical Asset Pricing: Eugene Fama, Lars Peter Hansen, and Robert Shiller, Scandinavian Journal of Economics. 2014. (PDF copy available on Prof. John Campbell's web site)

Note: This is not an econometrics course and some familiarity with the basic ideas of OLS/GLS regressions, Inference, Wald/LM and LR tests & GMM at the level of Wooldridge will be assumed.

Wooldridge, J, Introductory Econometrics, (Any Recent Edition), Cengage Learning Custom Publishing.

Required Activities and Evaluation

Students are expected to successfully complete a final take home examination. In addition there will be a group presentation of an assigned paper in class.