

16F024

3 ECTS

Empirical Asset Pricing and Banking

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Introduction

This is a two-module course that covers a number of topics in empirical asset pricing and banking. It is meant to expose students to the main research areas of the finance faculty at the BGSE. It is a particularly useful course for students that wish to pursue an academic career in finance.

Objectives

Module I: Economics of Asset Management (Javier Gil Bazo): Despite the massive reliance of investors worldwide on professional managers for both short-term and long-term investment decisions, the economics of the market for asset management services is still subject to an intense debate among academic economists, regulators, and market participants. The purpose of this module is to introduce the student to the major points of contention in this debate. The topic of mutual fund performance is covered in the Session 1. It includes an overview of performance measures, early empirical evidence, and more recent contributions that arise from methodological innovations. Session 2 explores the issue of how investors respond to portfolio performance and the consequences for performance determination. Sessions 3 and 4 deal with a promising area of research for economists: Mutual fund investor behavior and how it shapes the nature of competition in the mutual fund industry. The last session will be devoted to the evidence on conflicts of interest in the asset management industry.

Module II: Interactions between banking and macroeconomics (Jose Luis Peydro): In this part we will analyze the interactions between banking and macroeconomics, including monetary policy, systemic risk and financial crises. We will pay attention to bank capital and liquidity, credit cycles (booms and crunches), credit and asset price cycles, excessive risk taking, financial globalization and banks, and macroprudential policy.

Required Background Knowledge

Module I: No specific background knowledge is required beyond that provided by the courses in the first two quarters (especially, econometrics, financial econometrics and asset pricing).

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Module II: There are no formal prerequisites, but I will assume throughout that you have a basic understanding of econometrics and economics.

Learning Outcomes

Module I: After taking this module, students are expected to have an educated opinion about the main debates within the subfield of asset management: Whether or not (at least some) professional asset managers earn back management fees through their abilities to trade against market inefficiencies; Whether they should be expected to do so when investors compete for the most skilled managers; Whether and why competition among asset managers for investors' money differs from competition in other markets; And whether and how regulation can help. Both the contents and the teaching will be aimed at providing students with ideas for research in this field.

Module II: Students will be able to apply the empirical methodologies behind the recent banking and macro literature and be able to critically assess the robustness of the methods.

Methodology

Module I: In each session the professor will present a summary of the most relevant research in the corresponding topic according to the references provided in the Bibliography section. Teaching will emphasize state-of-the-art theories, unsolved empirical issues, and methodological challenges in empirical research. Students are expected to read papers marked with an asterisk before each session and participate actively.

Module II: In each session the professor will present a summary of the most relevant research in the corresponding topic. Teaching will emphasize state-of-the-art theories, empirical issues, and methodological challenges in empirical research.

Evaluation

Evaluation will be based on a problem set for each module (50% of the grade of the course), which is based on the replication of one or more empirical papers in the reading list.

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Course contents

Module I:

Session	
1	Portfolio Performance Evaluation: Performance Measures and Empirical Evidence
2	The Flow-Performance Relationship and the Berk and Green (2004) Model
3	Mutual Fund Fees and Mutual Fund Investor Behavior
4	Mutual Fund Competition
5	Conflicts of interest in Delegated Portfolio Management

Module II:

Session	
1	Introduction
2	Credit cycles: booms and crunches
3	Asset price bubbles, fire sales, liquidity, contagion, Volcker rule
4	Monetary policy, financial stability, globalization, capital controls
5	Macroprudential policy, crises and excessive risk-taking

Bibliography

Module I: The Economics of Asset Management

Session 1

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Grinblatt, M., & Titman, S. (1992). The persistence of mutual fund performance. *The Journal of Finance*, 47(5), 1977-1984.

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Session 2

*Berk, J. and R. Green (2004). Mutual fund flows and performance in rational markets. *Journal of Political Economy* 112 (6), 1269-1295.

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Glode, V., B. Hollifield, M. Kacperczyk, and S. Kogan (2011). Time-varying predictability in mutual fund returns. Working paper.

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Session 3

*Bailey, W., A. Kumar, and D. Ng (2011). Behavioral biases of mutual fund investors. *Journal of Financial Economics* 102 (1), 1-27.

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Session 4

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Professors Biography

Prof. Gil-Bazo is Associate Professor of Finance at University Pompeu Fabra. Javier holds a doctorate in Economics from the University of the Basque Country and has also undertaken research at Tilburg University and the Wharton School of the University of Pennsylvania. His research has been published in academic journals such as *Journal of Finance*, *Journal of Banking and Finance*, *Quantitative Finance*, *Journal of Business Finance and Accounting*, *Journal of Financial Econometrics*, and *Journal of Economic Behavior and Organization*. His work has been awarded with the Best Paper Award at the European Conference of the Financial Management Association, the Honorable Mention of the Moskowitz Prize for outstanding research in socially responsible investing and the BME Best Derivatives Paper Award at the Annual Meeting of the Spanish Finance Association.

José-Luis Peydró is ICREA Professor of Economics at UPF, Barcelona GSE Research Professor and Research Associate of CREI. He is Research Fellow of CEPR and IESE Public-Private Sector Research Center. Professor

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Peydró is also Associate Editor of the Review of Finance (the journal of the European Finance Association). He is a member of the European Systemic Risk Board's Advisory Scientific Committee, has been an advisor to the Bank of Spain's Financial Stability Department since 2011, consulted other central banks and international organizations since 2011, and previously worked at the European Central Bank. José Luis has written a book with Xavier Freixas and Luc Laeven on Systemic Risk, Crises and Macroprudential Policy, MIT Press, June 2015. In 2015, he received a Consolidator Grant from the European Research Council (ERC).