FINA 9210: Empirical Research in Investments

Course Syllabus

Spring 2013

Instructor

Dr. Alexander Barinov, PhD, University of Rochester
Assistant Professor, Department of Banking and Finance
Terry College of Business, University of Georgia

E-mail: *abarinov@terry.uga.edu*
Tel: *706-542-3650*
Office: *438 Brooks Hall*
Office Hours: *Tuesdays and Thursdays, 5:00 to 6:00 and by appointment*
Contact Notes: *The best way to contact me is via e-mail.*

Meeting Times and Locations

Tuesdays and Thursdays, from 3:30 to 4:45, Sanford 105

Course Description

This course is a PhD-level course in asset pricing. The course focuses on empirical work in asset pricing but includes a theoretical review of intertemporal asset pricing models.

Pre-Requisites and Co-Requisites

FINA 9200 (Initial Finance PhD Seminar), ECON 8010 (Microeconomic Theory), ECON 8070 (Statistics for Econometrics). The course picks up from the first finance PhD seminar, so it is assumed that students have a solid background in utility theory, the classic capital asset pricing model (CAPM), efficient markets, and other core concepts.

Course Objectives

After completing the course, the student is expected to:

- have a comprehensive conceptual framework of asset pricing
- be familiar with the classic papers, recent contributions to frontier topics, and most important, relevant economic questions;
- be able to analyze and evaluate new research efficiently
- have acquired the skills to conduct and communicate original asset pricing research.

Tentative Course Outline

The pace of the course is somewhat flexible and could speed up or slow down depending on student interest and comprehension. The course is divided into fifteen topics, by the number of weeks in the course. The plan is to have a lecture on Tuesdays, during which I present the overview of the most important papers and economic ideas in the topic, and Thursdays will be given to students' presentations. The papers to be discussed during the class meetings are in the reading list (see the separate file on the course Web page).

Week 1 (January 8, 10) Efficient Market Hypothesis, Event Studies, and Seasonality in Stock Returns

Week 2 (January 15, 17) Consumption CAPM

Week 3 (January 22, 24) Time-Series Predictability

Week 4 (January 29, 31) Conditional CAPM

Week 5 (February 5, 7) Intertemporal CAPM

Week 6 (February 12, 14) Value Premium

Week 7 (February 19, 21) Reversal, Momentum, and Related Continuation Anomalies

Week 8 (February 26, 28) New Issues Puzzle

Week 9 (March 5, 7) Accrual Anomaly

Week 10 (March 19, 21) Idiosyncratic Volatility, Analyst Disagreement, and Expected Returns

Week 11 (March 26, 28) Distress Risk Puzzle

Week 12 (April 2, 4) Liquidity Risk

Week 13 (April 9, 11) Information Risk

Week 14 (April 16, 18) Cash Flow Risk, Long-Run Risks

Week 15 (April 23, 25) Behavioral Finance

Final exam (optional): Tuesday, May 7, 3:30 - 6:30 pm, Sanford 105

University Honor Code and Academic Honesty Policy

As a University of Georgia student, you have agreed to abide by the University's academic honesty policy, "A Culture of Honesty," and the Student Honor Code. All academic work must meet the standards described in "A Culture of Honesty" found at www.uga.edu/honesty. Students must comply with the following guideline: "I will be academically honest in all of my academic work and will not tolerate academic dishonesty of others." Lack of knowledge of the academic honesty policy is not a reasonable explanation for a violation. Questions related to course assignments and the academic honesty policy should be directed to the instructor.

Changes to the Syllabus

The course syllabus is a general plan for the course; deviations announced to the class by the instructor may be necessary.

Required Course Material

Textbook: There is no required textbook for the course. The required reading (to be completed *before* the Tuesday class) consists of academic articles listed in the "Required Reading" sections of the reading list (see a separate file on the course Web page).

However, two textbooks are useful and chapters from them appear frequently in different part of the reading list:

- Campbell, John Y., Andrew W. Lo, and A. Craig MacKinlay, 1997, *The Econometrics of Financial Markets*, Princeton University Press
- Cochrane, John Y., 2005, *Asset Pricing*, Princeton University Press

If you intend to be an active researcher in the area of finance, I strongly encourage you to consider buying these textbooks.

A good basic coverage of many topics in the course is offered in my textbook entitled "Trading Strategies and Financial Models". The manuscript is available for purchase at Bel-Jean Copy Print Center, 163 East Broad Street (ask for the textbook for FINA 4330).

Software: Most assignments in this class require the use of SAS. UGA/Terry has a site license for SAS; please contact Terry OIT to have it installed on your computer as soon as possible. Most finance researchers use SAS on everyday basis. Getting familiar with it early will help you move through the PhD program.

With that said, I do not mind if you choose to use different software (Stata, Matlab) instead of SAS. Some people in the profession do so and are happy with their choice. However, please keep in mind that the different software you choose may be expensive. Also, I will be able to give you limited help with SAS; I am unable to help you with other software.

You also have to make your choice regarding the software you will use for regression analysis. Excel is not OK at the PhD level. I personally use EViews, which has, to my knowledge, the best choice of built-in estimation procedures. The student version of EViews is relatively cheap and has full functionality if you do not plan to work with huge datasets (you have SAS for that). Many people are happy running all their regressions in SAS. Upgrading to EViews makes sense if you plan to do serious financial econometrics, but do not want to program.

Data: Almost all well-known data in finance come from WRDS. Please open an account there as soon as possible.

A good source of macroeconomic data is at the Web site of the St. Louis Fed: http://research.stlouisfed.org/fred2/. The St. Louis data is known to researchers as FRED (Federal Reserve Economic Database).

Another very popular data source for asset pricing factors and portfolio returns is the Web site of Kenneth French, http://mba.tuck.dartmouth.edu/pages/faculty/ken.french/

Many researchers share their data on their Web sites, especially the variables that are hard to compute. The extensive list would be too long to put here. If you are looking for something, send me an e-mail, I may know about it or have it.

Reading List

The reading list is in the separate file on the course Web page. You are responsible for finding, downloading, and printing the things you have to read. Most of them are readily available from the eJournals search on the UGA library Web site, http://www.libs.uga.edu/ejournals/. I will post the ones I deem hard to find on the course Web page in the Readings folder.

The reading list is extensive; you do not have to read everything on it. If you later decide to work on one of the topics from the list, the list gives you a dozen or so classic papers in the area so you know where to start. Before each class, you are required to read the papers listed as required reading.

Two more set of papers, which you are not required to read, are "Methodology Papers" and "Interesting Papers". Methodology papers talk about the methods and empirical issues you have to be aware of when you start doing research in the respective area. "Interesting papers" is a sample of the respective literature. I chose them either because they are popular, or because I think they represent a nice example of research you should strive to produce, or just because I thought they are interesting. Many good and truly interesting papers are left off this list - this is not a reflection on their quality, but rather the evidence of my limited attention span.

There is no final in the course, but the material from the course will be in the finance qualifying exams. I will think that it is fair asking you on the qualifying exam anything from the required reading and anything we discussed in class.

Grading

The course grade will be based on:

- Three in-class presentations, 10% of the grade each
- Four individual homeworks, 10% of the grade each
- Referee report, 10% of the grade
- Final project, 20% of the grade
- If you desire, you can take the final exam. If you choose to do so, the final will be one-third of the course grades, and the things above will be two-thirds of the grade with the same weights.

The grading is on the curve, i.e., it is possible to get an A for "60%" score. I expect everyone to work hard and earn an A or A-; however, every grade there is an option if your effort is insufficient

In-Class Presentations

Each Thursday, we will discuss in detail at least two papers from the non-required papers on the reading list. Everyone in class is responsible for making three presentations. You can choose any paper you want with one constraint: one has to be from the first ***four*** topics (Week 1 is excluded), one has to be from the next ***six*** topics, and one has to be from the last ***four*** topics. Please let me know about your choices by January 21. If two people choose the same paper, or too many people choose to present on the same day, the "first come, first served" rule applies.

The deadline for picking your presentation day and paper is January 15 for the first presentation, January 25 for the second presentation, and February 11 for the third presentation.

You should expect to present for at most 20 minutes, like in all major conferences. Unlike conferences, I will allow questions from the floor while you present and will probably ask them myself. I will give you extra 5 minutes to answer the questions, so your total time will be 25 minutes, but realistically do not expect to be talking for longer than 15 minutes. Out of 15 minutes, I would suggest you spend 10-12 minutes on presenting the main idea in the paper and 3-5 minutes on discussion and critique.

I expect everyone to read the papers to be discussed in Thursdays classes and participate in the discussion.

The presentation grade comes from four sources:

- Quality of the paper summary - 40%
- Quality of discussion and critique - 30%

- My evaluation of your presentation skills - 10%
- Peer evaluation of your presentation skills - 20%

Everyone in class will fill out anonymous score sheet after each presentation so that you have feedback from the audience on how you did.

Depending on the number of students in class, we may not be able to fill all Thursdays (at least 30 papers in total) with your presentations. While you are always welcome to make an extra presentation and replace by its score the lowest presentation score you have, I will pick up the slack if you do not volunteer for extra presentations.

Homework

I will assign four individual homeworks (after Week 2, after Week 5, after Week 8, and after Week 12). The point of the homeworks is to get you started with SAS and WRDS, and, in the end, with your research. You will have one week to complete each homework.

Non-finance students can elect not to complete the homeworks if they believe that learning SAS and WRDS data is too big investment for them. Such students should inform me about their decision before the second homework is assigned. In this case, they will be assigned two different homeworks (that can be completed in Excel) instead of Homeworks 2 and 3 and they will have to take the final. The final in their case will replace the two homeworks they did not do.

Late Homework Policy

All homework assignments will be due on Tuesdays. I will grant extensions up to Friday of the same week if you notify me by Sunday midnight of some serious obstacles that do not let you finish the homework in time (e.g., you teach a class and have to create a midterm).

Referee Report

At the end of the course (somewhere around Week 13 or Week 14) I will assign one paper to everyone to write a referee report on. I will provide you with sample referee reports beforehand. The referee report will be due at the last class (April 28), no extensions. The main dimension I will judge the referee report on is the substance of your comments and their potential usefulness to the author of the paper. The referee report should be at least one and a half page long and at most four pages long (12 pt font, 1.5 spacing).

Course Project

By the end of the course, I expect everyone to produce a formal research proposal in the area of empirical asset pricing (including, but not limited to the topics covered in the course). This proposal should include the "front end" of a research paper (and, preferably, some preliminary empirical results).

You should let me know about your topic and have it approved by me by March 31. I reserve the right to turn down the ideas that are not about asset pricing or that are simple mechanical extensions of the existing papers.

By "front end" of a paper, I mean the following:

- Abstract: Provide a brief summary of the objective of your proposed study and the preliminary results. Speculate about potential results and contributions. (150 words or less)
- Introduction: Include more background on the topic and a brief review of related literature. (Review only the most important related literature in the introduction. Postpone additional literature review until the next section). Explain your motivation, your empirical approach (briefly), and speculate about potential results and contributions. (No more than three pages).
- Literature Review: Here, you can discuss other related literature in more depth to supplement your introduction. Should include at least three published papers, if at all possible. (No more than three pages).
- Data Section: Describe your proposed data. (Probably one to two pages).
- Preliminary Results: Make every attempt to produce at least two tables (not including descriptive statistics) with the results of the tests of your central hypothesis.
- Further Research: Outline the future work you think is necessary to achieve your final goal and to turn this proposal into a working paper. Be as specific as possible about the details of the tests you intend to perform. (No more than five pages).

I am willing to give everyone in class the chance to present the research proposal in front of the class and hear the feedback from the room, including my feedback. This is optional; you do not have to talk to anyone about your research proposal. However, I strongly encourage you to do it, especially if you intend to ever turn the proposal into a working paper. I will allocate 15 minutes of class time to your presentation (formal or not) of the proposal and the following class discussion.

The final project will be due at the last class (April 25). If absolutely necessary, you can ask for extension of up to three days.

Final Exam

The final will be an open-book exam. All students who decide they want to take the final need to inform me of their decision by April 30.

The students will also have the option of a take-home exam. Those who elect to take the final in this format will receive the text of the final by e-mail at a pre-agreed time (preferably the same for everyone who takes the take-home final) and will have to e-mail back their solution in electronic form three hours later.

Attendance Policy

I expect you to attend every class. I reserve the right to deduct up to 5% of the course grade in case of serious attendance issues.

Withdrawal Policy

I do not want people without genuine interest in empirical asset pricing in this course. If you do not have that, you are free to leave anytime before the withdrawal deadline (Thursday, March 21) with a W a.k.a. WP. Please keep in mind though that the course is not offered every year.

Policy for make-up of examinations

There will be no make-up tests for any reason. Actually, there will be no tests unless you ask for one - just do not ask for it if you cannot make it to the test.