FIN 938: Investments Seminar; Readings in Empirical Asset Pricing Research
Fall - 2014
Line #:  26082;  Meets Tuesdays, 3:00 - 5:45pm, Summerfield 409

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My Office Hrs: Tues. & Thurs, before class: 10:00 - 11:00am & 12:15 - 1:00pm
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Course Description: This course covers a wide range of topics that have been the focus of recent research in the field of investments. We’ll focus on forthcoming and recently published work, and the background papers that developed and contributed to this work.

Course Objective: This course will help you become well-informed about the content and methodology behind current research in the field of investments. We will cover the broad array of methodological tools used in empirical asset pricing research, paying special attention to the econometric issues that arise. This is a hands-on course. You will be given data and asked to conduct your own empirical analyses. You will also develop your own research project.

Course Structure and Grading: This is a readings course. Four to six papers will be assigned each week on a specific topic that will be the focus of discussion at the next weekly session. All students will be expected to read all papers assigned for each weekly session. Each student will be primarily responsible for one of the papers assigned, and will lead a 15-minute discussion of that paper at the next weekly session. By noon on the day before each weekly session, all students will email me a detailed summary of the paper they are primarily responsible for that week (maximum 5 pages). At the same time, all students will also email me a brief summary of every other paper assigned that week (maximum 1 page, for each brief summary).

Each report should follow the format of the document entitled, “Summary Report Outline.” Each weekly session will consist of an in-depth discussion of all the papers assigned. Active participation is critical for the success of this class. Every week, all students must prepare properly to ensure lively and productive discussion on all papers. Your grade will be determined by the quality and rigor of your:

(i) written summaries provided on the day before each weekly session,
(ii) presentation of the paper you are primarily responsible for each week,
(iii) participation in the class discussion of all other papers each week,
(iv) written summaries of empirical analyses you are assigned,
(v) research project (see next page),
(vi) effort.

Course Materials: The reading list follows. Most papers on this list are available on the web. The last page of this syllabus provides a brief summary of useful electronic resources. I have also placed electronic copies of most of these papers at the web address listed above.
Research Component of the Course:

One major goal of this course is to get you excited about, and actively involved in, conducting your own research. Toward this end, I expect each of you to develop or improve upon a research project of your own this semester. Ideally, the final product of your effort would be a research paper suitable for submission to a journal. Realistically, I will expect substantive progress toward that ultimate goal over the course of the semester.

Each student will **meet with me early in the semester** to discuss your research efforts. If you already have a current project underway that you wish to pursue further, I need to see what you currently have developed. If I agree, then you may wish to work at making substantive progress on that project during the semester. If you don’t have a current project underway, or wish to develop a new project, then I’ll encourage you to consult with me and/or your advisor and/or any faculty member or student with whom you’d like to work, to develop a project. Either solo-authored or co-authored projects are suitable for this purpose. I will be happy to do what I can to help with your efforts on any research project. However, if the paper is not on a topic in empirical asset pricing, then you will need to rely on other faculty for help as well.

In any case, I will need to review and approve your project **early in the semester**, to help you satisfy this component of the course. Together, you and I will develop a list of items on your project that you plan to accomplish during the semester. At mid-semester we will meet again to discuss your progress on this list, and to perhaps revise this list based on what you have learned from your efforts during the first half of the semester.

Your grade on this component of the course will depend on the progress you make on this list during the semester. I intend to assign grades in December that encompass all requirements for this course, including whatever progress you have made on this research project by that time. I do not plan to give incomplete grades.

Students with disabilities:

Any student who has a disability that may prevent her/him from fully demonstrating his/her abilities should contact me personally as soon as possible so we can discuss accommodations necessary to ensure full participation and facilitate the educational opportunity.

School of Business Honor System:

The School of Business Honor System promotes academic integrity by its students and faculty through adherence to the following code:

We, the faculty, instructors, and students of the School of Business pledge to fulfill our mutual responsibilities to each other and the academic community at large with honor and integrity in order to build and maintain a climate of respect and trust that will enhance our research, teaching, and learning. We will support the Honor System of the School and will not tolerate activities that undermine academic integrity.

As a student in a School of Business class, you will be protected by and expected to conduct yourself in accordance with this system. For a complete description of the system, see: [http://www.business.ku.edu/honor-code](http://www.business.ku.edu/honor-code). This is required reading for all students.

In accord with this policy, the following pledge must be signed by students at the end of exams:

On my honor, I have neither given nor received any unauthorized aid on this exam. Nor am I aware of anyone giving or receiving any unauthorized aid on this exam.

Signature_________________________________ Date:_____________
FIN 938: Readings List - Fall, 2014

I. Overview.

A. Writing Tips & Professional Etiquette.
   4. JFE_Stulz_Tips for Authors, by Rene Stulz, JFE Advisory Editor and former Editor of JF.
   5. JFE_Information for Impatient Authors.
   6. JFE_Turnaround Times & Rejection Rates.

B. Major Paradigms and Recent Developments in Empirical Asset Pricing Research.

II. Methodology in Empirical Asset Pricing Research.

A. Regression Approach.
   3. Fama & French’s 3-factor & 5-factor models:

B. Portfolio Approach. (examples:)
   2. Griffin, Harris, and Topaloglu, 2003, *JF* (58), 2285-2320. (See also under “Are Institutions Informed?”)
C. Event Study Approach.
   4. Berkman & Truong, 2009, “… Event Day 0,” JAR.

D. Problems Measuring Long Term Abnormal Performance.
   4. Lyon, Barber, & Tsai, 1999, JF (54), 165-201.

E. Logistic Propensity Scoring to Generate a Matched Pairs Test Design.

F. Volatility issues.

G. The ARCH/GARCH effect.
H. Data Snooping.
      Performance,” working paper.
   6. Harvey, Liu, and Zhu, 2014, “… and the Cross-Section of Expected Returns,”

I. Spurious Regression.
      Betas and Alphas: The Effects of Data Snooping and Spurious Regression,”
      JFQA, (43), 331-354.

J. Unit Roots & Cointegration.
      (Cover I. & J. the same week.)

K. Factor Analysis.
   4. Dhrymes, Friend, & Gultekin, 1984, “A Critical Re-Examination of the
      the APT: A Reply,” JF (39), 347-350.
      Chapter 6, “Multifactor Pricing Models.”


   A. Return Predictability.
         (83), 367-396.
      2. Pick a paper from the RFS *Special Issue on Return Predictability*, 2008.
         Predictability,” JFE (99), 560-580.

B. Size Effect (small firms outperform large firms).
   2. Done already above; reproduced size effect in Cochrane, 2002.

C. Book-to-Market Effect (value firms outperform growth or glamour firms).
   1. Summarized in Fama and French, 1992, JF (47), 427-465. (See also in Regr.)

D. Short Term Return Reversals (Overreaction).

E. Medium Term Price Momentum, Positive Feedback Trading (Underreaction).
   1. Jegadeesh & Titman, 1993, JF (48), 65-91 (see also in “Disposition Effect.”)

F. Earnings Momentum or Post-Earnings Announcement Drift (PEAD, Underreaction).

G. Accruals (high accruals stocks underperform low accruals stocks).

H. Capital Investments (high investment stocks underperform low investment stocks).

I. Disagreement (high disagreement stocks underperform; more in V.I.C. Miller Hypoth)

J. Idiosyncratic Volatility (high IVOL stocks underperform low IVOL stocks).

K. Credit Risk (stocks with high credit risk underperform stocks with low credit risk).

L. Profitability (stocks with high profitability outperform stocks with low profitability).

IV. Behavioral Finance Topics.
** Much of the above literature in “Stock Price Anomalies” also falls under this topic.


A. Under- & Over-Reactions.

B. Contrarian Strategies, Negative Feedback Trading.
a. Lakonishok, Schleifer, & Vishny, 1994, JF (49), 1541-1578.

C. The Disposition Effect (selling winners too soon & holding losers too long).

D. Herding.
c. Welch, 2000, JFE (58), 369-396.
f. Park & Sabourian, 2009, “Herding and Contrarian Behavior in Financial Markets,” working paper. (See also under “Contrarian Strategies...”)

E. Market Sentiment.
f. Any article from the JFE Special Issue on Investor Sentiment, May 2012, JFE (104, Issue 2), 227-420. (Not Jeff Wurgler’s introduction article.)
V. Information, Trading, and Stock Price Behavior.

** Much of this literature also falls under the topic of “Behavioral Finance.”

A. Are Individuals Informed?
   g. Barber, Lee, Liu, & Odean, 2009, “Just How Much Do Individuals Lose by Trading?” RFS.
   i. Seru, Shumway, and Stoffman, 2010, “Learning by Trading,” RFS (23), 705-739. (See also in Disposition Effect.)

B. Are Institutions Informed?
   e. Griffin, Harris, & Topaloglu, 2003, JF (58), 2285-2320.


C. Home Bias (lack of International Diversification)

D. Local Bias (Influence of geographic distance between investor and firm HQ).

E. Insider Trading.


F. Short Sales and Information.


G. The Association between Volume and Returns.


(A small part of their study finds a negative relation between average returns and recent past dollar trading volume.)


VI. Limits of Arbitrage.

A. Short Sale Constraints.
   c. Pick an article from JFE, 2002 (66), Special Issue on Short Interest & Transactions Costs.

B. The Miller Hypothesis.

VII. Market Microstructure Issues in the Mainstream.

A. Background, Theory, and Stylized Facts in Microstructure.
B. Theory & Empirical Work.

1. Informed versus Uninformed Trading.

   c. __________, 2010, “Factoring Information into Returns,” JFQA (45), 293-309.

3. Liquidity.
   b. Amihud & Mendelson, 1986, JFE (32), 223-249.
   e. Glosten & Harris, 1988, JFE (21), 123-142.
   g. Chordia, Roll, & Subrahmanyam, 2000, JFE (56), 3-27.


   b. Hasbrouck, 1988, JFE (22), 2299-252.

   h. Mitchell & Mulherin, 1994, JF (49), 923-950.
   i. Berry & Howe, 1994, JF (49), 1331-1345.
Electronic Resources to locate current & past research:

A. To search for current working papers (e-papers):

1. SSRN:  www.ssrn.com
   Choose FEN;  Search;
   Enter key words in title, author’s name, …;
   browse list of SSRN papers by author or on topic desired.

B. To search for published papers in major journals:

1. KU electronic library: www.lib.ku.edu
   Click on button, “ejournals”;
   type journal title;
   browse past issues of selected journal to find article desired.

C. For electronic copies of papers published in JF, JFE, & RFS:

   For forthcoming JF papers:
   http://www.afajof.org/view/forthcomingArticles.html
   For JF papers, 1946 – present:
   http://www.afajof.org/view/publishedArticles.html

   For forthcoming JFE papers:
   For recent JFE papers:
   http://www.journals.elsevier.com/journal-of-financial-economics/recent-articles/
   For more JFE stuff (w/ lots of useful links AND forthcoming papers)
   http://jfe.rochester.edu/