

Finance 868 Spring 2017

Professor Dongmei Li

## **Empirical Methods in Financial Research**

### ***Course Description***

This course provides an introduction to empirical research in finance and is intended for Ph.D. students in finance. Empirical issues and methods are explored primarily in the context of published academic studies.

### ***Textbook***

*The Econometrics of Financial Markets*, by John Y. Campbell, Andrew W. Lo, and A. Craig MacKinlay, Princeton University Press, 1997.

*Asset Pricing*, by John H. Cochrane, Princeton University Press, 2005 (revised edition).

### ***Course Requirements***

The course grade is based on two exams and class presentations/participations. Preparedness for class discussions of assigned readings is especially important. Each student will be assigned papers in advance and needs to present in class. However all students are required to read all assigned papers as the final exam will cover all the readings.

In each class (except the first class), we will have two students presenting a paper, one hour each. During the presentation, all students are encouraged to ask questions and participate as in a regular seminar.

The mid-term exam is take-home. The final is closed-book. Each counts 20%. The presentations and class participations count for 60%.

### ***Miscellaneous***

Lectures: Tuesday, 1:15-3:30pm, DMSB 110

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Office hours: by appointment

## Course Outline and Reading Assignments

*Note: The readings below are tentative. The content and orders may change depending on the class progress.*

### 1. Overview and resources (1/10)

- a. Campbell, Lo, and MacKinlay, chapter 1
- b. Campbell, Lo, and MacKinlay, chapter 2 (exclude 2.6)

### 2 Cross-Sectional Tests of Pricing Models (1/17)

- a. Fama and MacBeth, “Risk, Return, and Equilibrium: Empirical Tests.”
- b. Fama and French. “The Cross-Section of Expected Stock Returns.”

### 3. Multifactor Models (1/24)

- a. Fama and French, “Common Risk Factors in the Returns on Stocks and Bonds.”
- b. Pástor and Stambaugh, “Liquidity Risk and Expected Stock Returns”
- c. Huberman, Kandel, and Stambaugh. “Mimicking Portfolios and Exact Arbitrage Pricing.”
- d. Campbell, Lo, and MacKinlay, chapter 6.

### 4. Momentum (1/31)

- a. Jegadeesh and Titman, “Returns to Buying Winners and Selling Losers: Implications for Stock Market Efficiency.”
- b. Fama and French, “Multifactor Explanations of Asset Pricing Anomalies.”
- c. Korajczyk and Sadka, “Are Momentum Profits Robust to Trading Costs.”

### 5. Risk versus Mispricing (2/7)

- a. Daniel and Titman, “Evidence on the Characteristics of Cross Sectional Variation in Stock Returns”
- b. Davis, Fama and French, “Characteristics, Covariances, and Average Returns: 1929–1997.”

### 6. Recent factor models and Anomalies I (2/14)

- a. Fama and French. “A Five-Factor Asset Pricing Model.”
- b. Fama and French. “Dissecting Anomalies.”

### 7. No class—take-home mid-term exam (2/21)

### 8. Recent factor models and Anomalies II (2/28)

- a. Hou, Xue, and Zhang. “Digesting anomalies: An investment approach”
- b. Hou, Xue, and Zhang. “A comparison of new factor models.”

### 9. Recent factor models and Anomalies III (3/14)

- a. Ang, Hodrick, Xing, and Zhang. “The Cross-Section of Volatility and Expected Returns.”
- b. Cooper, M., H. Gulen, M. Schill. “Asset growth and the cross section of stock returns.”

### 10. Recent factor models and Anomalies IV (3/21)

- a. Fama and French. “Choosing factors”
- b. Novy-Marx, Robert. 2013. “The other side of value: The gross profitability premium.”

Journal of Financial Economics 108, pp. 1–28.

**11. Recent factor models and Anomalies V (3/28)--TBA**

**12. Innovation-related research I (4/4)--TBA**

**13. Innovation-related research II (4/11)--TBA**

**14. Final exam (4/18)**