P R E R E Q U I S I T E S :  F I N 6 0 5 3

C O U R S E  M A T E R I A L:

Required

There are two required references for this course. The major reference for the course is “Asset Pricing: (Revised) (Hardcover)”, by John H. Cochrane [hereafter JHC]. The second reference for the course is “The Econometrics of Financial Markets” by John Y. Campbell, Andrew W. Lo, A. Craig MacKinlay [hereafter CLM]. The last reference is “Using SAS in Financial Research” by Ekkehart Boehmer, John Broussard, Juha-Pekka Kallunki [hereafter BBK]. More information about the course can be found at course D2L page or the course page at the teaching page of my homepage at: http://spears.okstate.edu/~nejadma.

Optional

In addition to the required texts, you are strongly advised to utilize the following texts:

- **Investment Theory:**
  - “Neoclassical Finance” by Stephen A. Ross – Highly Recommended
  - “Investors and Markets” by William F. Sharpe – Highly Recommended

- **Asset Pricing:**
  - “Principles of Financial Economics” by LeRoy, Werner, & Ross
  - “Theory of Financial Decision Making” by Jonathan E. Ingersoll
  - “Foundations for Financial Economics” by Huang & Litzenberger
  - “Dynamic Asset Pricing Theory” by Darrell Duffie

- **Econometrics:**
  - “A Guide to Econometrics” by Peter Kennedy
  - “Econometric Analysis” by William H. Greene
  - “Bayesian Econometrics” by Gary Koop
  - “Econometric Analysis of Cross Section and Panel Data” by Jeffrey M. Wooldridge
  - “Limited-Dependent and Qualitative Variables in Econometrics” by G. S. Maddala

Software

As I am familiar with SAS, STATA, FORTRAN, and Matlab, most codes and examples that I can provide you with will be in one the aforementioned languages/packages. However, you are free to use any and all software programs to do your assignments and conduct the necessary analysis for your research paper.
OBJECTIVE:

This course covers the recent advances in a variety of investment related topics while overviews the historical progression of underpinning ideas. We cannot completely cover the entire literature on investment theory but we will explore as many topics as possible. I hope that this approach provides you with a foundation on which you can build and expand our field of study. My sincere hope is to help you maximize the potential that you may locate an intriguing dissertation topic.

STYLE:

In the first class I will assign papers on the attached reading list to each student or team of students to present during the class period. Each presenter (or team) will provide the class with a two or three page review of the assigned paper(s) and present the work. The audience will be required to discuss and query the presenters with intriguing and thought-provoking questions (depending upon the quality of the discussion, audience members may be required to submit a one-page summary of each paper). In other words, the basic premise is that we will simulate an academic research seminar with a researcher presenting his/her own work to an audience of fellow researchers. The goal is to improve the research, learn how to present a piece of research, construct an interesting and valid research study, explore various econometric techniques, write a paper and get that paper published in a well respected journal.

GRADES:

Your final grade for this course is determined base on the following grade activities:

<table>
<thead>
<tr>
<th>Grade Activity</th>
<th>Percentage</th>
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<tbody>
<tr>
<td>Presentations</td>
<td>30</td>
</tr>
<tr>
<td>Research Paper</td>
<td>30</td>
</tr>
<tr>
<td>Projects/Homeworks</td>
<td>20</td>
</tr>
<tr>
<td>Final Exam</td>
<td>20</td>
</tr>
</tbody>
</table>

Upon completion of the course, the final letter grade then will reported using the following rule:

<table>
<thead>
<tr>
<th>Percentage Point Range</th>
<th>Final Letter Grade</th>
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<tbody>
<tr>
<td>89.5% – 100.0%</td>
<td>A</td>
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<tr>
<td>79.5% – 89.4%</td>
<td>B</td>
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<tr>
<td>69.5% – 79.4%</td>
<td>C</td>
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<tr>
<td>59.5% – 69.4%</td>
<td>D</td>
</tr>
<tr>
<td>&lt; 59.5%</td>
<td>F</td>
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PROJECT/HOMWORK:

To practice what we preach, we will have quite a few homework/project assignments which essentially would be replication of previous studies with perhaps new data or new methods. The goal of these assignments is to have you get your hands dirty with programming, using SAS, Matlab, STATA, etc., and learn how empirical research is conducted in finance. I am an engineer by training and cannot see any better way to learn how to do something without actually doing it!
**Research Paper:**

The research paper will be a guided study defined by me but conducted by each student. I will define the project and your responsibility is to finish the project. A completed project means that at the semester-end, you will need to have a paper ready to be submitted to a major conference. **Note without this paper, NO PASSING GRADE will be reported. PERIOD!**

**Final Exam:**

There will be a comprehensive final exam which would cover all topics of the course. Questions are primarily conceptual and would gauge your general knowledge of each topic as well as your ability to design research projects related to the subject matter. The final exam will be given on Monday, May 2, 2010 during the period of 8:00 p.m. – 9:50 p.m. as designated by the Spring 2010 Class Schedule. As a part of your final exam you may be asked to write-up a referee report on a research paper.

**Courtesy Rules:**

Students are not allowed to have pagers, cellular phones, laser pointers, electronic games, musical devices, or any other device, which may distract any other student or instructor. **These rules are strongly enforced.** Respect is expected at all times and cursing or profanity will not be tolerated.

**Attendance Policy:**

Students are expected to attend each class. Attendance will be taken at the beginning of each class. Students who must miss be absent from a class are responsible for securing any and all course work missed from the other students in the class.

**Disability Accommodations:**

If a student requires accommodations based on disability, the student should meet with the instructor during the first week of the semester.

**Academic Integrity:**

Oklahoma State University is committed to the maintenance of the highest standards of integrity and ethical conduct of its members. This level of ethical behavior and integrity will be maintained in this course. Participating in a behavior that violates academic integrity (e.g., unauthorized collaboration on homework or assignments, plagiarism, multiple submissions of the same assignment, cheating on examinations, fabricating information, helping another person cheat, having unauthorized advanced access to examinations, altering or destroying the work of others, and fraudulently altering academic records) will result in your being sanctioned. Violations may subject you to disciplinary action including the following: receiving a failing grade on an assignment, examination or course, receiving a notation of a violation of academic integrity on your transcript, and being suspended from the University. You have the right to appeal the charge. Contact the Office of Academic Affairs, 101 Whitehurst, 405-744-5627, [see, http://osu.okstate.edu/acadaffr/aa/academicintegrity.htm for details.]
## Tentative Course Schedule

<table>
<thead>
<tr>
<th>Date</th>
<th>Agenda</th>
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<tbody>
<tr>
<td>Jan 13</td>
<td><strong>Introduction: Ancient Origins of Investment Theory</strong></td>
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<tr>
<td></td>
<td>o Part 1: pp. 1 – 48</td>
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<tr>
<td>Jan 20</td>
<td><strong>Portfolio Theory and CAPM</strong></td>
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<tr>
<td></td>
<td>o Ch 7 &amp; 8: pp. 253 – 339 [CLM] if time permits</td>
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<tr>
<td></td>
<td>o <strong>LISTED PAPERS</strong></td>
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<tr>
<td>Jan 27</td>
<td><strong>Multifactor Models</strong></td>
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<td></td>
<td>o Part 2: pp. 224 – 291 [JHC]</td>
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<tr>
<td></td>
<td>o Ch 5 &amp; 6: pp. 181 – 252 [CLM] if time permits</td>
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<tr>
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<td>o <strong>LISTED PAPERS</strong></td>
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<tr>
<td>Feb 03</td>
<td><strong>Market Efficiency</strong></td>
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<tr>
<td></td>
<td>o Ch 1 &amp; 2: pp. 1 – 82 [CLM] if time permits</td>
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<tr>
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<td>o <strong>LISTED PAPERS</strong></td>
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<tr>
<td>Feb 10</td>
<td><strong>Liquidity and Price</strong></td>
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<td>o <strong>LISTED PAPERS</strong></td>
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<td>Feb 17</td>
<td><strong>NO CLASS</strong></td>
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<td>Feb 24</td>
<td><strong>Volume and Prices</strong></td>
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<td>o <strong>LISTED PAPERS</strong></td>
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<td>Mar 03</td>
<td><strong>Volatility</strong></td>
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<td>o <strong>LISTED PAPERS</strong></td>
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<tr>
<td>Mar 10</td>
<td><strong>Information and Price Discovery</strong></td>
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<tr>
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<td>o <strong>LISTED PAPERS</strong></td>
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<tr>
<td>Mar 24</td>
<td><strong>Events Studies and Market Effects</strong></td>
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<td>o Ch 4: pp. 149 – 180 [CLM] if time permits</td>
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<tr>
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<td>o <strong>LISTED PAPERS</strong></td>
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<tr>
<td>Mar 31</td>
<td><strong>Analysts and Earnings</strong></td>
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<tr>
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<td>o <strong>LISTED PAPERS</strong></td>
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<tr>
<td>Apr 07</td>
<td><strong>IPOs and SEOs</strong></td>
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<tr>
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<td>o <strong>LISTED PAPERS</strong></td>
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<tr>
<td>Apr 14</td>
<td><strong>Mutual Funds</strong></td>
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<tr>
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<td>o <strong>LISTED PAPERS</strong></td>
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<tr>
<td>Apr 21</td>
<td><strong>Market Micro Structure: Bid-Ask Spreads</strong></td>
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<tr>
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<td>o Ch 3: pp. 83 – 147 [CLM] if time permits</td>
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<tr>
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<td>o <strong>LISTED PAPERS</strong></td>
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<tr>
<td>Apr 28</td>
<td><strong>Behavioral Asset Pricing</strong></td>
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<td>o <strong>LISTED PAPERS</strong></td>
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<tr>
<td>May 02</td>
<td><strong>FINAL EXAM; 8:00 P.M. – 9:50 P.M. – RESEARCH PAPERS DUE</strong></td>
</tr>
</tbody>
</table>
Topics & Papers:

There is no packet for the course. Most of the papers are available on the Web either in working paper form or via JSTOR (http://www.jstor.org) or via Library (http://www.library.okstate.edu/) databases. Papers that are not available on the web will generally be handed out. Papers below are not exhaustive list of what has been done in each field but rather a sample of important work. The list includes original thoughts as well as most recent advances in each topical area. Because this is an advanced course I expect you to be diligent in filling in the gap and read about the topics on your own. I will also likely add papers to the list as we go. This will depend on your interests. Double underlined papers are must-read for all and single underlined papers are strongly recommended. Presenters are expected to know general material in the rest of the papers in each topic.

Portfolio Selection and the CAPM


Multifactor Models


**Market Efficiency**

Presented by Dr N


Liquidity and Price


Volume and Price


Volatility


Price Discovery and Information Flow


Event Studies and Market Effects


**Analysts and Earnings**

**Presented by NAMRATA/XI**


**IPOs and SEOs**

**Presented by SVETLANA**


**Mutual Fund**


**Market Micro structure; Bid Ask Spread**

Presented by ADAM/HAN


Behavioral Finance

Presented by MARY/SVETLANA/SIAMAK


