

Empirical Asset Pricing 2023-2024

Graduate School of Finance, Finland

Syllabus for Part 1B

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Part 1b of Empirical Asset Pricing aims to teach you how to conduct empirical research in the area of asset pricing. The lectures are concentrated mostly on applications of methods and how these methods can be used to answer questions that are of economic relevance. Thus, we will not spend too much time on the associated econometric theory.

Prerequisites: I assume that you are familiar with the topics that were covered during part 1a of the course. That is, you should by now have a working knowledge of the econometrics underlying linear regression, GMM, the Wald test, etc. Furthermore, I assume that you have taken a PhD-level course in theoretical asset pricing. I will not spend any time on explaining basic concepts such as the stochastic discount factor, the consumption-based asset pricing model or the derivations of various factor-representations such as the CAPM, ICAPM, APT, etc.

Material:

- The textbook is Cochrane's "*Asset Pricing*" (Rev. ed). **Chapters 7, 10, 11, 12, 13, 15, 16 and 20 are required for the exam.**
- In addition to the textbook, there will be a number of papers that you are required to read. The papers are listed below. I do not require that you must know all the technicalities in these papers, but you should understand the research question, the test methods, the main results, and the contribution that the paper made to the literature.

List of topics: The following is a list of topics that will be discussed during the lectures.

1 Testing asset pricing models: Linear expected return-beta models and linear factor models in discount factor form.

- – AP chapters 10,11,12,13, 15, 16. Gibbons, Ross and Shanken (1989).

2 Early and recent tests of the CAPM. Cross-sectional anomalies and multi-factor models.

- – AP chapter 20. Fama and MacBeth (1973), Fama and French (1992), Jegadeesh and Titman (2001), Lakonishok et al. (1994), Fama and French (1996), Daniel and Titman (1997), Vassalou (2003), Ang et al. (2006), Cooper et al. (2008), Campbell and Vuolteenaho (2004), Pastor and Stambaugh (2003).

3 Tests of consumption-based asset pricing and further discussion on estimating SDF-models.

- – AP chapter 11. Hansen and Singleton (1982, 1984), Hansen and Jagannathan (1991, 1997), Yogo (2006), Parker and Julliard (2005),

4* Conditional asset pricing models. (Not required for the exam, but important anyway)

- – AP chapter 8. Jagannathan and Wang (1996), Lettau and Ludvigson (2001), Lewellen and Nagel (2006).

5 Other topics

- – AP chapter 7. Lewellen et al. (2010).

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