

Syllabus: Selected Topics in Asset Pricing

Instructor

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Assignments

- Final Paper – details discussed in class

Overview

Topic 1: Non-standard tests of asset pricing models

Asset pricing models are typically judged based on how well they fit historical data after assuming rationality and a specific set of preferences. While this should be one aspect of how we test these models, it is not sufficient and they should be tested in other ways as well. This day will discuss standard asset pricing models, standard tests of these models as well as these alternatives and explore whether they should be added to the canon of standard asset pricing tests. This will require turning to non-standard data such as surveys, examining what information investors demand to see and generally taking seriously what investors say they are trying to do.

Topic 2: Recurring firm events and predictable returns

Many common firm events recur on a predictable basis, such as earnings and dividends, among others. Surprisingly (from a standard asset pricing perspective), these events tend to be associated with large positive abnormal returns. These returns occur mainly on the long side of the portfolio, are statistically and economically large when value weighted, and replicate internationally. We will discuss a number of these cross-sectional patterns (e.g. the earnings announcement premium, dividend month premium, Heston and Sadka seasonality, etc) and also the evidence for why such patterns exist and what this means for understanding asset markets.

Topic 3: Bringing trading back into asset pricing

Textbook asset pricing asserts that prices move due to fundamentals. This suggests that trade in and of itself has no impact on asset prices. Yet, go talk to a sophisticated market participant and perhaps their largest concern is that their trade shifts prices against them. This day will focus on the recent literature that has brought trading back to the fore of understanding asset price movements. Specific topics will likely include the inelastic markets hypothesis, the influence of predictable price pressure, and the influence of non-standard demand such as green finance.

Reading List

Topic 1

Suggested:

[Chinco, Alex, Samuel M. Hartzmark, and Abigail B. Sussman.](#) "A new test of risk factor relevance." *The Journal of Finance* 77, no. 4 (2022): 2183-2238.

Discussed:

[Choi, James J., and Adriana Z. Robertson.](#) "What matters to individual investors? Evidence from the horse's mouth." *The Journal of Finance* 75, no. 4 (2020): 1965-2020.

[Bender, Svetlana, James J. Choi, Danielle Dyson, and Adriana Z. Robertson.](#) "Millionaires speak: What drives their personal investment decisions?." *Journal of Financial Economics* 146, no. 1 (2022): 305-330.

[Giglio, Stefano, Matteo Maggiori, Johannes Stroebel, and Stephen Utkus.](#) "Five facts about beliefs and portfolios." *American Economic Review* 111, no. 5 (2021): 1481-1522.

[Greenwood, Robin, and Andrei Shleifer.](#) "Expectations of returns and expected returns." *The Review of Financial Studies* 27, no. 3 (2014): 714-746.

[Hartzmark, Samuel M., and Kelly Shue.](#) "A tough act to follow: Contrast effects in financial markets." *The Journal of Finance* 73, no. 4 (2018): 1567-1613.

[Bergman, Abigail, Alex Chinco, Samuel M. Hartzmark, and Abigail B. Sussman.](#) "Survey curious? start-up guide and best practices for running surveys and experiments online." *Start-Up Guide and Best Practices For Running Surveys and Experiments Online (October 05, 2020)* (2020).

[Hartzmark, Samuel M., and Abigail B. Sussman.](#) "Eliciting Expectations." *Available at SSRN 4780506* (2024).

Topic 2

Suggested:

Hartzmark, Samuel M., and David H. Solomon. "Recurring firm events and predictable returns: The within-firm time series." *Annual Review of Financial Economics* 10 (2018): 499-517.

Discussed:

Heston, Steven L., and Ronnie Sadka. "Seasonality in the cross-section of stock returns." *Journal of Financial Economics* 87.2 (2008): 418-445.

Bernard, Victor L., and Jacob K. Thomas. "Post-earnings-announcement drift: delayed price response or risk premium?." *Journal of Accounting research* 27 (1989): 1-36.

Frazzini, Andrea, and Owen A. Lamont. "The earnings announcement premium and trading volume." *NBER working paper w13090* (2007).

Barber, Brad M., et al. "The earnings announcement premium around the globe." *Journal of Financial Economics* 108.1 (2013): 118-138.

Savor, Pavel, and Mungo Wilson. "Earnings announcements and systematic risk." *The Journal of Finance* 71.1 (2016): 83-138.

Johnson, Travis L., and Eric C. So. "Asymmetric trading costs prior to earnings announcements: Implications for price discovery and returns." *Journal of Accounting Research* 56.1 (2018): 217-263.

DellaVigna, Stefano, and Joshua Pollet. "Investor inattention and Friday earnings announcements." *Journal of Finance, forthcoming* (2008).

Johnson, Travis L., and Eric C. So. "Time will tell: Information in the timing of scheduled earnings news." *Journal of Financial and Quantitative Analysis* 53.6 (2018): 2431-2464.

Chang, Tom Y., et al. "Being surprised by the unsurprising: Earnings seasonality and stock returns." *The Review of Financial Studies* 30.1 (2016): 281-323.

Degeorge, Francois, Jayendu Patel, and Richard Zeckhauser. "Earnings management to exceed thresholds." *The Journal of Business* 72.1 (1999): 1-33.

Kim, Jinhwan, and Eric C. So. "Expectations management and stock returns." *Available at SSRN 2866522* (2018).

Hartzmark, Samuel M., and David H. Solomon. "The dividend month premium." *Journal of Financial Economics* 109.3 (2013): 640-660.

Harris, Lawrence E., Samuel M. Hartzmark, and David H. Solomon. "Juicing the dividend yield: Mutual funds and the demand for dividends." *Journal of Financial Economics* 116.3 (2015): 433-451.

Hartzmark, Samuel M., and David H. Solomon. "The dividend disconnect." *7th Miami Behavioral Finance Conference*. 2016.

Topic 3

[Gabaix, Xavier, and Ralph SJ Koijen](#). *In search of the origins of financial fluctuations: The inelastic markets hypothesis*. No. w28967. National Bureau of Economic Research, 2021.

[Hartzmark, Samuel M., and David H. Solomon](#). "Marketwide predictable price pressure." *Available at SSRN 3853096* (2021).

[Da, Zhi, Borja Larrain, Clemens Sialm, and José Tessada](#). "Destabilizing financial advice: Evidence from pension fund reallocations." *The Review of Financial Studies* 31, no. 10 (2018): 3720-3755.