Syllabus: Estimation of Asset Pricing Models (FE587)

Fall 2018

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Course Description:

This course is designed to provide an introduction to empirical asset pricing on the stock markets. The course will begin with a basic asset pricing equation with discount factor. Then we will study factor pricing models including the CAPM, Fama-French three-factor model, and other factor models. It will then explore the theoretical methods such as time-series regressions, cross-sectional regressions, and the generalized method of moments (GMM). Emphasis will be placed on empirical evidence of the existing asset pricing models.

Pre-requisites:

Students are expected to have some background understanding of general finance and investment. Students are also expected to have some basic concepts in statistics. However, the course will provide its own background, if necessary.

Required textbook:

(a) John H. Cochrane, Asset Pricing, Princeton University Press

(b) Bodie, Kane, and Marcus, Investments 10th edition, McGraw-Hill.

Course requirements:

(a) There will be homework problem sets. They must be handed in on time to receive full credit. Discussion with other classmates on homeworks is permissible, but the final writeup must be in your own words.

(b) There will be one term-paper. Using data on stocks (or mutual funds), students will estimate parameters and test asset pricing models.

(c) There will be a Final exam. The Final exam will be given during the scheduled final examination period. No make-up exam will be given under any circumstance.

(d) Final grades will be determined by class participation (10%), homeworks and term-paper (40%), Final Exam (50%).

Tentative Course Outline:

1. Asset pricing model and basic pricing equation
2. Factor pricing model, expected return-beta representation, and scaled factor
3. Factor pricing model and regression-based tests: Time-series and cross-sectional regressions
4. Empirical evidence on the stock market