

Sabancı PhD Program
Fall 2021
FIN 620 – Empirical Asset Pricing

Instructor: Yiğit Atılgan
Phone: (216) 483-9663
Web: SuCourse+
E-mail: yigit.atilgan@sabanciuniv.edu

Office: SBS 1002
Fax: (216) 483-9699
Office Hours: By appointment

Type	Time	Days	Where
Class	8:40 AM – 11:30 AM	M	FMAN G056

Course Objective:

The purpose of this course is to provide an overview of asset pricing at the graduate level. The topics covered include portfolio theory, determinants of asset returns, factor models and time-varying volatility. While covering these topics, we will first build the theoretical framework and then proceed to the empirical tests of these theories. After covering the key concepts, hypotheses and empirical regularities through seminal papers, we go over to more recent papers to explore the current state of the literature so that students can study novel research questions. The course is intended primarily for masters or doctoral students who are interested in asset pricing research.

Learning Outcomes:

Upon successful completion of the course, the student should be able to:

1. Link investor preferences to expected utility and risk aversion and explain how risk aversion impacts the portfolio choices of investors
2. Outline the assumptions underlying mean-variance analysis
3. Derive and interpret CAPM, APT and other linear factor models
4. Link investment choices to consumption-saving decisions
5. Distinguish between the efficient market hypothesis and behavioral finance
6. Understand, test and interpret anomalies related to the cross-section of asset returns
7. Understand, test and interpret the time-series predictability of asset returns

Course Material:

Lecture notes provided by the instructor and selected academic papers in the reading list.

Course Web:

Lecture notes, course slides, papers in the reading list will be posted on SuCourse+. All assignments should also be submitted on the SuCourse+.

Instructional Design:

In-class lectures will introduce students with the main financial concepts. The students are expected to read the assigned academic papers in detail before each lecture as the papers will be covered on a discussion basis. Students can attend these lectures either physically or online. The lectures will be held over Zoom for distant participants on the link below. The video recordings for the in-class lectures will also be made available to students as soon as possible and throughout the semester.

<https://sabanciuniv.zoom.us/j/9155172887>

Passcode: 939791

Grading:

Your overall course grade will be determined through 3 principal assessment tools:

1. Take-home exam (30%): The take-home exam will assess the students' understanding of the theoretical concepts introduced in the first part of the course. The students will be expected to work on these exam questions independently.
2. Reflection papers (40%): After the theoretical part of the course, students are expected to write weekly reflection papers (10 in total) covering the topic of the week. The reflection paper should provide a summary of the relevant literature, its importance in asset pricing and the contribution of the assigned papers to this line of literature. While summarizing specific empirical papers, students can discuss their primary research question, data set, empirical design and main findings. Students are also encouraged to provide their own critique of the papers and discuss how they would go about improving them. Please limit your reflection papers to a maximum of two pages (12-pt font, single spacing and 1-inch margins).
3. Paper presentations (30%): Students are required to present a total of three papers during the semester. These should be 30 min presentations of one of the papers from the reading list. We will target one paper presentation per week. The presentation should cover the research questions that the authors asking and the contribution of the paper to the literature, the data sources and econometric techniques used, the main findings and your own critique of the paper.

Optional Reading Material:

Back, Kerry E., 2017. Asset Pricing and Portfolio Choice Theory. Oxford University Press.

Munk, Claus, 2015. Financial Asset Pricing Theory. Oxford University Press.

Pennacchi, George, 2007. Theory of Asset Pricing. Pearson Education.

Cochrane, John H., 2009. Asset Pricing: Revised Edition. Princeton University Press.

Campbell, John Y., Andrew M. Lo, A. Craig MacKinlay, 2012. *The Econometrics of Financial Markets*. Princeton University Press.

Campbell, John Y., 2017. *Financial Decisions and Markets: A Course in Asset Pricing*. Princeton University Press.

Bali, Turan G., Robert F. Engle, Scott Murray, 2016. *Empirical Asset Pricing*. Wiley.

Ferson, Wayne, 2019. *Empirical Asset Pricing: Models and Methods*. MIT Press.

Constantinides, George M., Milton Harris, Rene M. Stulz, 2003. *Handbook of the Economics of Finance: Financial Markets and Asset Pricing (Vol. 1B)*, North Holland.

Constantinides, George M., Milton Harris, Rene M. Stulz, 2003. *Handbook of the Economics of Finance: Asset Pricing (Vol. 2B)*, North Holland.

Pandemic Precautions

Social distancing will be observed in the physical lectures. Seating arrangements have been made to provide social distancing. Both the instructor and the students must wear masks properly throughout the lecture. There will be no exception to this rule indoors and in the classrooms. In cases where a student insists not to follow this rule despite a reminder, the instructor will share the name and the ID of the student with the Faculty for necessary actions. The instructor may also cancel the lecture and deliver the amount of cancelled time asynchronously.

Academic Honesty

Learning is enhanced through cooperation and as such you are encouraged to work in groups, ask for and give help freely in all appropriate settings. At the same time, as a matter of personal integrity, you should only represent your own work as yours. Everything you borrow from books, articles, or web sites should be properly cited. Although you are encouraged to discuss your ideas with others, it is important that you do not share your writing with anyone. Using ideas, text and other intellectual property developed by someone else while claiming it is your original work is *plagiarism*. Copying from others or providing answers or information, written or oral, to others is *cheating*. Unauthorized help from another person or having someone else write one's paper or assignment is *collusion*. Cheating, plagiarism and collusion are serious offenses that could result in a failing grade and disciplinary action. Please pay utmost attention to avoid such accusations.

Course Schedule:

Week 1	Date: September 27 Topic: Theory: Expected Utility and Risk Aversion
Week 2	Date: October 4 Topic: Theory: Mean-Variance Analysis
Week 3	Date: October 11 Topic: Theory: CAPM, Arbitrage and Linear Factor Models
Week 4	Date: October 18 Topic: Theory: Consumption-Savings Decisions and State Pricing
Week 5	Date: October 25 Topic: Market Efficiency and Behavioral Finance
Week 6	Date: November 1 Topic: Market Beta, CAPM and APT
Week 7	Date: November 8 Topic: Momentum and Reversal
Week 8	Date: November 15 Topic: Size and Value
Week 9	Date: November 22 Topic: Size and Value (continued)
Week 10	Date: November 29 Topic: Liquidity and Idiosyncratic Volatility
Week 11	Date: December 6 Topic: Higher-Order Moments
Week 12	Date: December 13 Topic: Investment and Profitability
Week 13	Date: December 20 Topic: Asset Pricing Models
Week 14	Date: December 27 Topic: Time-Series Predictability