This course examines a variety of econometric methods for addressing substantively important questions in financial research. We will have one class meeting per week. Grading will be flexible – students will have input to determine what type of evaluation procedure will be used. There will be several homework problems assigned throughout the quarter. One of the homework assignments will involve replicating and extending some empirical results that are reported in some of the papers we are going to be discussing in class (or in another paper that we mutually agree on).

This course will cover material on efficient markets, CAPM tests, interest rates, inflation, time-varying conditional expected returns and volatility, and liquidity. Emphasis will be on the application of empirical methods to financial data.

The reading assignments will be announced in class and will more or less follow the sequence given below. We have included additional references, which are not required, for students who want more information on particular topics. These are not on reserve, but copies of these journals are available in the Management Library (and they are available electronically through the Management Library). The recommended books for the course are:


We will put these books on reserve in the library.
There may be some guest lecturers (other faculty members and Ph.D. students). In addition, we
will ask each student who is registered for the course to be responsible for leading the discussion of one
or more related papers during some part of the course. Of course, we will be available to help you plan
your lecture, and we will supplement what you say in class. You should find a topic that interests you
and volunteer early.

This course is intended to help you overcome fear of using new methods to analyze problems that
interest you. If you have a specific topic or area of interest that is not currently on the outline, we would
be glad to consider adding/substituting that material into the course.

**Course Information on the Wide World Web (WWW)**

Most of the materials for this course will be posted on the home page for this course
[http://schwert.ssb.rochester.edu/f532/f532.htm](http://schwert.ssb.rochester.edu/f532/f532.htm). For example, we plan to post copies of the
assignments as HTML and/or as Adobe Acrobat PDF files (so they can be viewed and printed from a
microcomputer attached to the WWW). In addition, we will use the home page for posting information
about future class meetings, etc., so you should check regularly to see if new information is available.

**READINGS**

I. **Efficient Markets**

  George Constantinides, Milton Harris, and René Stulz, North-Holland (2003).

* Huberman, Gur, and G. William Schwert, Information Aggregation, Inflation, and the Pricing of

Abel, Andrew B. and Frederic S. Mishkin, On the Econometric Testing of Rationality-Market

Acharya, Sankarshan, Value of Latent Information: Alternative Event Study Methods, *Journal of

Barber, Brad and Lyon, John, Detecting Long-Run Abnormal Stock Returns: The Empirical Power and

Barber, Brad and Lyon, John, Detecting Abnormal Operating Performance: The Empirical Power and


II. Asset Pricing


*JC*, Chapters 5, 9, 10-12.


### III. Time-Varying Expected Returns

*JH*, Chap. 14 (very good exposition on GMM).

*CLM*, Chaps. 2 and 7.

*JH*, Chaps. 15 and 17.


CLM, Chaps. 8, 10, and 11.


**IV. Interest Rates and Inflation**

*JH*, Chap. 4 (read earlier chapters if you have not taken APS 425).


V. Time-Varying Volatility


A. ARCH & GARCH models (and their relatives)

*CLM*, Chap. 12.2.

*JH*, Chap. 21.


B. Nonparametric and regime-switching models

*CLM*, Chap. 12.3.

*JH*, Chap. 22.


C. Time-varying Volatility of IPOs