Spring 2016

Department of Finance, Insurance, and Real Estate
Fogelman College of Business and Economics
University of Memphis

Course Title  FIR 8710, Seminar on Investment Theory
Instructor  Dr. Christine X. Jiang, Professor of Finance
Class Schedule  Thursday 2:30pm – 5:30pm, FCB 365
Office Hours  By appointment

Telephone Number: 678 5315
Email: cjiang@memphis.edu

Course Descriptions:
The course is an introduction to theories and empirical techniques applied most often in
the analysis of financial markets and investments. It addresses a set of current research
topics in the investment field through reading and analysis of research papers. These
topics include the risk and return of capital markets, forecasting markets and security
prices with financial and accounting information, performance evaluation of investment
managers, and topics in behavioral finance. A strong background in statistics or
econometrics is useful.

Statistical Packages: Students should use the statistical or econometric package that they
are already familiar with. If you are starting from scratch, you can consider using SAS,
SPSS, or RATS.

Textbook  There is no required textbook for the course.

A highly recommended reference book:
The Econometrics of Financial Markets by John Y.
Campbell, Andrew W. Lo and A.Craig MacLinlay, 1997,
Princeton University Press

A comprehensive reading list is also provided

Other Useful Books  Huang, Chi-fu and Robert H. Litzenberger, Foundations for

Fama, Eugene F., Foundations of Finance, Basic Books,


**Grading**

<table>
<thead>
<tr>
<th>Component</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Presentations and Discussions</td>
<td>20%</td>
</tr>
<tr>
<td>Final Exam</td>
<td>30%</td>
</tr>
<tr>
<td>Research Paper</td>
<td>30%</td>
</tr>
<tr>
<td>Empirical Project</td>
<td>20%</td>
</tr>
</tbody>
</table>

**Research Paper**

Students are required to write a research paper for the course, which can be either on an original research topic or the replication / update of a published empirical paper (subject to approval of the instructor). The research paper requires the use of financial databases and appropriate research techniques. In addition to the description of data, research methodology and empirical findings, the paper should also have an introduction, be properly motivated, and include a brief literature review and conclusion. Reference materials should be cited properly. Tables should be self-explanatory: titles should be descriptive of the contents of the table, variables should be clearly defined and notations explained.

**Empirical Projects and Assignments (due dates to be announced in class)**

1. Statistical properties of return series

   Investigate the predictability of some asset prices of your own choice. This could be return of an equity index, an individual company, returns of small firms as opposed to large firms, exchange rates, option prices, futures prices, whatever interests you.

   Determine whether the “stylized facts” that have been identified in the literature for financial time series apply to the series you have chosen. Replicate Lo and MacKinlay’s (1988) variance ratio test.
2. Cross-sectional approach to the empirical test of the Capital Asset Pricing Model

Fama and MacBeth (1973) suggest a two stage procedure for testing the capital asset pricing model. The betas can first be estimated for individual stocks and then for portfolios formed on the basis of the betas of individual stock. The portfolio betas are subsequently used in the cross-sectional regression. Test CAPM using a sample of individual stocks.

3. Event study

Choose a specific event to study the stock market response to a public announcement of value relevant information.
<table>
<thead>
<tr>
<th>Week</th>
<th>Topics (Tentative Schedule)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Introduction</td>
</tr>
<tr>
<td></td>
<td><em>Reading Assignment: CLM Chapter 1</em></td>
</tr>
<tr>
<td></td>
<td><em>Selected Articles from Return Distribution and Introduction to Efficient Markets</em></td>
</tr>
<tr>
<td>2</td>
<td>The Short-Run Predictability of Asset Returns</td>
</tr>
<tr>
<td></td>
<td><em>Reading Assignment: CLM Chapter 2</em></td>
</tr>
<tr>
<td></td>
<td><em>Selected Articles from Return Variances and Autocorrelations</em></td>
</tr>
<tr>
<td>3-4</td>
<td>The Long-Run Predictability of Asset Returns</td>
</tr>
<tr>
<td></td>
<td><em>Reading Assignment: CLM Chapter 7</em></td>
</tr>
<tr>
<td></td>
<td><em>Selected Articles from Long Run Predictability in Asset Returns</em></td>
</tr>
<tr>
<td>5-6</td>
<td>Event-Study Analysis</td>
</tr>
<tr>
<td></td>
<td><em>Reading Assignment: CLM Chapter 4</em></td>
</tr>
<tr>
<td></td>
<td><em>Selected Articles from Event Study Methodology</em></td>
</tr>
<tr>
<td></td>
<td>Efficient Market Hypothesis and Tests</td>
</tr>
<tr>
<td></td>
<td><em>Selected Articles from Efficient Market Hypotheses</em></td>
</tr>
<tr>
<td>7-8</td>
<td>Asset Pricing Model</td>
</tr>
<tr>
<td></td>
<td><em>Reading Assignment: CLM Chapters 5-6</em></td>
</tr>
<tr>
<td></td>
<td><em>Selected Articles from Asset Pricing Model, Intertemporal Asset Pricing Models: Noise Trader Models</em></td>
</tr>
<tr>
<td>9</td>
<td>Spring break, No class</td>
</tr>
<tr>
<td>10</td>
<td>Time Varying Volatility</td>
</tr>
<tr>
<td></td>
<td><em>Reading Assignment: CLM Chapter 12 (12.1-12.2)</em></td>
</tr>
<tr>
<td></td>
<td><em>Selected Articles from Time Varying Volatility</em></td>
</tr>
<tr>
<td>11</td>
<td>Fund Performance and Performance Attribution</td>
</tr>
<tr>
<td></td>
<td><em>Selected Articles from Fund Performance Measurement</em></td>
</tr>
<tr>
<td>12-13</td>
<td>Behavioral Finance: Theory and Empirical Evidence</td>
</tr>
<tr>
<td></td>
<td><em>Selected Articles from Behavioral Finance</em></td>
</tr>
<tr>
<td>14-15</td>
<td>Discussions on Research Project</td>
</tr>
<tr>
<td>16</td>
<td>Final Exam</td>
</tr>
</tbody>
</table>
**Reading List**

**Overview of Capital Markets**


**Return Variances and Autocorrelations**


**Long Run Predictability in Asset Returns**


**Event Study Methodology, Stock Returns and Corporate Policies**


**The Efficient Markets Hypothesis**

*Market Anomalies*


*Over-reaction and Momentum*


**Cross-sectional predictability: Size, Book-to-Market, and Overreaction**


Daniel, K., and S. Titman, 1997, Evidence on the characteristics of cross-sectional


**Trends, Unit Roots and Cointegration**


**The Asset Pricing Model**


**Intertemporal Asset Pricing Models: Noise Trader Models**


**Time Varying Volatility**


**Performance Measurement**


**Herding**


**Behavioral Finance**


