

ECOM042 Empirical Finance

This course aims to bridge the gap between theoretical financial models and the real world by reviewing the major accomplishments (and failures) of empirical finance during the last quarter of a century.

Instructor: Professor Marcelo Fernandes, m.fernandes@qmul.ac.uk, office W312

Office Hours: Although I officially hold office hours on Mondays and Tuesdays, I practice an open-door policy in that I am usually more than happy to receive students at any time. I also welcome questions via e-mail.

Coursework: There are regular empirical exercises that the students must perform in groups. I will randomly allocate students into research syndicates of 5 people. The idea is to reproduce a working environment in that one does not choose with whom to work with. I will set a timetable with the deadlines for each one of the assignments. In addition, each research team will have to write an empirical essay on a topic of their choice. The latter is due before the last day of the term.

Grading Policy: This is an empirical course and hence it does not make much sense to evaluate the performance of the students exclusively through exams. The final mark will also depend on the empirical assignments. In particular, I use a weighted average of the above marks with the following weights: exam 50%, empirical essay 25% and empirical assignments 25%.

Peer Assessment: For every coursework, each member of the group will have to score the other members using a scale of -1 to 3, with 3 representing a contribution that is better than the others in the group. A score of 1 is a contribution that is less than the others in the group, whereas 0 is for no help at all and a -1 score for a hindrance to the group. I will then scale the individual marks by the ratio of the individual total score (i.e., the sum of each individual peer assessment score) to the average peer assessment mark for the group.

Reading Material: Unfortunately, there is no single book that covers all aspects of the course. In the references, I suggest three books and a paper that jointly cover almost all of the material. You will also receive a booklet with slides for every lecture. I expect students to prepare themselves for lectures by reading the material beforehand.

We may deviate from the following schedule depending on the pace of the lectures.

Lecture 1 Efficient market hypothesis and predictability

references: Lo & MacKinlay, chapter 1

Campbell, Lo & MacKinlay, chapter 1

Cuthbertson & Nitzsche, chapters 2 and 3

Lecture 2 Short-run vs. long-run predictability

Momentum vs. contrarian strategy

references: Lo & MacKinlay, chapters 2 and 5

Campbell, Lo & MacKinlay, chapter 2

Cuthbertson & Nitzsche, chapter 4

Lecture 3 Nonsynchronous trading and bid-ask spread

reference: Lo & MacKinlay, chapter 4

Campbell, Lo & MacKinlay, chapter 3

Lecture 4 Asymmetric information

reference: Easley & O'Hara (Journal of Finance 1992)

Lecture 5 CAPM, APT and multifactor models

reference: Lo & MacKinlay, chapter 7

Campbell, Lo & MacKinlay, chapters 5 and 6

Cuthbertson & Nitzsche, chapter 8

Lecture 6 Fund performance

reference: Cuthbertson & Nitzsche, chapter 9

Lecture 7 Event studies

reference: Cuthbertson & Nitzsche, chapter 9

Campbell, Lo & MacKinlay, chapter 4

Lecture 8 Present-value models

reference: Campbell, Lo & MacKinlay, chapter 7

Lecture 9 Term structure of interest rates

reference: Cuthbertson & Nitzsche, chapters 20 to 23

Campbell, Lo & MacKinlay, chapter 11

Lecture 10 Volatility extraction

reference: Cuthbertson & Nitzsche, chapter 29

Campbell, Lo & MacKinlay, chapter 12.2

References

Campbell, Lo & MacKinlay (1997) *The Econometrics of Financial Markets*, Princeton.

Cuthbertson & Nitzsche (2004) *Quantitative Financial Economics*, Wiley.

Easley & O'Hara (1992) *Journal of Finance* 47, 577–604.

Lo & MacKinlay (1999) *A Non-Random Walk Down Wall Street*, Princeton.