

Empirical Methods in Finance

UT Austin (F395.4)

Fall 2018

Professor: [John M. Griffin](mailto:John.M.Griffin@ut-telamex.edu) (www.jgriffin.info)

Meets: Monday 12:30-3:30, with many additional Wednesday classes and homework reviews,

Office Hours

Mon, 3:30-4:00, Tues. 11-11:30, after class, and by appointment,
and/or stop by if available.

Teaching Assistant:

Mr. Amin Shams

amin.shams.m@gmail.com,

Date:	Readings:	Assignments:	Special Notes:
Week 1: Aug. 29	Class Introduction, Introduction		<i>Required to read the papers for the below related seminars. If a conference then write a paragraph on what you learned.</i>
Week 2: Sept. 5	Stock Characteristics, Variance Ratios, Time Series Predictability	Assignment #1	
Week 3: Sept. 10, 12	Cross-sectional Tests of Asset Pricing Theories	Assignment #2	
Week 4: Sept. 17, 19	Time-series Tests of Asset Pricing Theories, Value Strategies,	Assignment #3	
Week 5: Sept. 24	Cross-sectional Predictability and Momentum	Assignment #4	Analytics Summit: Pick an hour or two session, I recommend James Scott.
Week 6: Oct. 2	Testing Methodology Critiques,		
Week 7: Oct. 9	International Finance and Methods, Causal Finance Methods	Idea Assignments / Student Presentations	
Week 8: Oct. 15	Causal Finance Methods Invading Investments	Idea Assignments	
Week 9: Oct. 22	International Financial Crises	Idea Assignments	Austin Block chain Conference, Tues 10/23, Fin Crisis conference 10/26,
Week 10: Oct. 29	Real Estate	Idea Assignments	

Week 11: Nov. 5	Forensic Finance	Idea Assignments	
Week 12: Nov. 12	Mutual Funds, Institutions and Hedge Funds	Idea Assignments	
Week 13: Nov. 27	Behavioral Finance	Idea Assignments	
Week 15-16: Dec 3	Paper Presentations		
	FINAL EXAM	Dec 10: 7pm-10pm (tentative)	

Readings: (Subject to Change)

(r): required

(s): supplementary

ALL READINGS ARE SUBJECT TO CHANGE AND ADDITIONAL PAPERS WILL BE ADDED

Topic 1: Introduction

(r) Edward Leamer. [Let's Take the Con Out of Econometrics](#). *American Economic Review*. (1983). 73(1): 31-43.

(r) Karolyi, Andrew. The Ultimate Irrelevance Proposition in Finance? *Financial Review*. (2011). 46(4): 485-512.

(r) [Scientific misconduct Monkey Business?](#) Economist, August 26, 2010. And <http://bigthink.com/artful-choice/re-examining-significant-research-the-problem-of-false-positives>

(r) Mathiness in the Theory of Economic Growth, *American Economic Review*, Paul M. Romer* <http://paulromer.net/wp-content/uploads/2015/05/Mathiness.pdf>

(r) Harvey, Campbell, 2017, "Presidential Address: The Scientific Outlook in Financial Economics". *Journal of Finance*

(s) Stephen T. Ziliak and Deirdre N. McCloskey. [Size Matters: The Standard Error of Regressions in the American Economic Review](#). *Journal of Socio-Economics*. (2004). 33(5): 527-546.

(s) Van Noorden, Richard. "The trouble with retractions." *Nature* 478.7367 (2011): 26.

(r) Kessler, Andy. "Studies are Usually Bunk, Study Shows." *Wall Street Journal*, August 14, 2017.

Topic 2: Stock Characteristics, Variance Ratios, and Predictability

(r) Eugene Fama. Chapters 1 and 2. [Foundations of Finance](#). (1976). New York: Basic Books.

(r) John M. Griffin, Patrick Kelly, and Federico Nardari. [Do Market Efficiency Measures Yield Correct Inferences? A Comparison of Developed and Emerging Markets](#). *Review of Financial Studies*. (2010). 23(8): 3225-3277. *Only Read Intro, Section 1, and 5.5.*

(r) Eugene Fama and Kenneth French. [Business Conditions and Expected Returns on Stocks and Bonds](#). *Journal of Financial Economics*. (1989). 25(1): 23-50.

(r) Ivo Welch and Amit Goyal. [A Comprehensive Look at the Empirical Performance of Equity Premium Prediction](#). *Review Financial Studies*. (2008). 21(4): 1455-1508.

(r) Stambaugh, Robert F, 1999, Predictive regressions, *Journal of Financial Economics* 54, 375–421

(r) Cochrane, John H, 2008, The dog that did not bark: A defense of return predictability, *Review of Financial Studies* 21, 1533–1575

(r) Campbell, John Y, 1991, A variance decomposition for stock returns, *Economic Journal* 101, 157–79.

(s) Timothy S. Mech. [Portfolio Return Autocorrelation](#). *Journal of Financial Economics*. (1993). 34(3): 307-338.

(s) John Campbell, Andrew Lo, and A. Craig MacKinlay. Chapter 1 and 2: Predictability of Asset Returns. [The Econometrics of Financial Markets](#). (1997). Princeton, N.J.: Princeton University Press.

(s) Jacob Boudoukh, Matthew Richardson, and Robert F. Whitelaw. [The Myth of Long-Horizon Predictability](#). *Review Financial Studies*. (2008). 21(4): 1577-1605.

(s) Novy-Marx, Robert. "Predicting anomaly performance with politics, the weather, global warming, sunspots, and the stars." *Journal of Financial Economics* 112, no. 2 (2014): 137-146.

Topic 3: Cross-sectional Pricing

(r) John Cochrane. Chapter 12. [Asset Pricing \(Rev. ed.\)](#). (2005). Princeton, N.J.: Princeton University Press.

(r) Eugene Fama and James MacBeth. [Risk, Return, and Equilibrium: Empirical Tests](#). *Journal of Political Economy*. (1973). 91(3): 607-636.

(r) Eugene Fama and Kenneth French. [The Cross-Section of Expected Stock Returns](#). *Journal of Finance*. (1992). 47(2): 427-465.

(s) John Campbell, Andrew Lo, and A. Craig MacKinlay. Chapter 5: The Capital Asset Pricing Model. [The Econometrics of Financial Markets](#). (1997). Princeton, N.J.: Princeton University Press. Only Read 5.1 and 5.8.

Topic 4: Time Series Tests

(s) John Campbell, Andrew Lo and A. Craig MacKinlay. Chapter 6: Multifactor Pricing Models. [The Econometrics of Financial Markets](#). (1997). Princeton, N.J.: Princeton University Press.

(r) Eugene Fama and Kenneth French. [Common Risk Factors in the Returns on Stocks and Bonds](#). *Journal of Financial Economics*. (1993). 33(1): 3-56.

(r) Eugene Fama and Kenneth French. [Multifactor Explanations of Asset Pricing Anomalies](#). *Journal of Finance*. (1996). 51(1): 55-83.

GMM and Consumption

(s) John Cochrane. Chapters 10, 11, 20, and 21. [Asset Pricing \(Rev. ed.\)](#). (2005). Princeton, N.J.: Princeton University Press.

(s) John Campbell. Asset Prices, Consumption, and the Business Cycle. [Handbook of Macroeconomics](#) by J. B. Taylor & M. Woodford (ed.) (1999).

(s) John Campbell and John Cochrane. [By Force of Habit: A Consumption-Based Explanation of Aggregate Stock Market Behavior](#). *Journal of Political Economy*. (1999). 107(2): 205-251.

Topic 5: Value Strategies

(r) Josef Lakonishok, Andrei Shleifer, and Robert Vishny. [Contrarian Investment, Extrapolation, and Risk](#). *Journal of Finance*. (1994). 49(5): 1541-1578.

(r) Kent Daniel and Sheridan Titman. [Evidence on the Characteristics of Cross-Sectional Variation in Stock Returns](#). *Journal of Finance*. (1997). 52(1): 1-33.

(s) John Campbell, Jens Hilscher, and Jan Szilagyi. [In Search of Distress Risk](#). *Journal of Finance*. (2008). 63(6): 2899-2939.

(s) Eugene Fama and Kenneth R. French. Size and Book-to-market Factors in Earnings and Returns. *Journal of Finance*. (1995). 50(1): 131-155.

(s) John Griffin and Michael L. Lemmon. Does Book-to-Market Equity Proxy for Distress or Overreaction? *Journal of Finance*. (2002). 57(5): 2317-2336.

Bayesian Applications in Finance

(s) Eric Jacquier and Nicholas Polson. [Bayesian Econometrics in Finance](#). *Working paper*.

(s) JOHANNES, M., KORTEWEG, A. and POLSON, N. (2014), Sequential Learning, Predictability, and Optimal Portfolio Returns. *The Journal of Finance*, 69: 611–644. doi:10.1111/jofi.12121

Topic 6: Cross-sectional Predictability and Momentum

(r) Narasimhan Jegadeesh and Sheridan Titman. [Returns to Buying Winners and Selling Losers: Implications for Stock Market Efficiency](#). *Journal of Finance*. (1993). 48: 65-91.

- (r) Clifford S. Asness, Tobias J. Moskowitz, and Lasse H. Pedersen. [Value and Momentum Everywhere](#). *Journal of Finance*. (2013). 68(3): 929-985.
- (r) McLean, R David and Jeffrey Pontiff, 2016, Does academic research destroy stock return predictability?, *The Journal of Finance* 71, 5–32.
- (s) Joseph Engleberg, R. David McLean, and Jeffrey Pontiff, 2018, Anomalies and News, DOI: 10.1111/jofi.12718
- (s) Michael J. Cooper, Roberto C. Gutierrez, and Allaudeen Hameed. [Market States and Momentum](#). *Journal of Finance*. (2004). 59: 1345-1365.
- (s) Narasimhan Jegadeesh and Sheridan Titman. Profitability of Momentum Strategies: An Evaluation of Alternative Explanations. *Journal of Finance*. (2001). 56: 699-720.
- (s) John Griffin, Susan Ji, and Spencer Martin. Momentum Investing and Business Cycle Risk: Evidence from Pole to Pole. *Journal of Finance*. (2003). 58: 2515-2547.
- (s) Mark Grinblatt and Bing Han. Prospect Theory, Mental Accounting, and Momentum. *Journal of Financial Economics*. (2005). 78: 311-339.
- (s) Xuemin (Sterling) Yan, Lingling Zheng; Fundamental Analysis and the Cross-Section of Stock Returns: A Data-Mining Approach. *Rev Financ Stud* 2017; 30 (4): 1382-1423. doi: 10.1093/rfs/hhx001

Topic 7: Testing Methodologies

- (r) Kent Daniel and Sheridan Titman. [Testing Factor-model Explanations of Market Anomalies](#). *Critical Finance Review*. (2012). 1(1): 103-139.
- (r) Jonathan Lewellen, Stefan Nagel, and Jay Shanken. [A Skeptical Appraisal of Asset Pricing Tests](#). *Journal of Financial Economics*. (2010). 96(2): 175–194
- (r) Jonathan Lewellen, The Cross-section of Expected Stock Returns, *Critical Finance Review*, 2015.
- (r) Campbell R. Harvey, Yan Liu, Heqing Zhu; ... and the Cross-Section of Expected Returns. *Rev Financial Stud* 2016; 29 (1): 5-68. doi: 10.1093/rfs/hhv059
- (r) Feng, Guanhao and Giglio, Stefano and Xiu, Dacheng, Taming the Factor Zoo (April 4, 2017).
- (s) Andrew J. Patton and Allan Timmermann. [Monotonicity in Asset Returns: New Tests with Applications to the Term Structure, the CAPM and Portfolio Sorts](#). *Journal of Financial Economics*. (2010). 98(3): 605-625.
- (s) Bryzgalova, Svetlana. "Spurious factors in linear asset pricing models." LSE manuscript (2015).

(s) Francisco Barillas, Jay Shanken; Which Alpha?. *Rev Financ Stud* 2017; 30 (4): 1316-1338. doi: 10.1093/rfs/hhw101

(s) Cattaneo, Matias D. and Crump, Richard K. and Farrell, Max H. and Schaumburg, Ernst, Characteristic-Sorted Portfolios: Estimation and Inference (2016-08-01). FRB of NY Staff Report No. 788. Available at SSRN: <https://ssrn.com/abstract=2822686>

Topic 8: International Finance

(r) Eugene F. Fama, Kenneth R. French, International tests of a five-factor asset pricing model, *Journal of Financial Economics*, Volume 123, Issue 3, March 2017, Pages 441-463, ISSN 0304-405X

(r) Karolyi, Andrew and Ying Wu. [The Role of Investability Restrictions on Size, Value, and Momentum in International Stock Returns](#). *Working Paper*.

(r) Bartram, S. M., Griffin, J. M., Lim, T. H., & Ng, D. T. (2015). How important are foreign ownership linkages for international stock returns?. *Review of Financial Studies*, 28(11), 3036-3072.

(r) Asim Ijaz Khwaja and Atif Mian. Unchecked Intermediaries: Price Manipulation in an Emerging Stock Market. *Journal of Financial Economics*. (2005). 78(1): 203–241.

(s) Geert Bekaert, Campbell R. Harvey, Christian Lundblad, and Stephan Siegel. What Segments Equity Markets? *Review of Financial Studies*. (2011). 24(12): 3841-3890.

(s) Chris Lundblad, Pab Jotikasthira, and Tarun Ramadorai. Asset Fire Sales and Purchases and the International Transmission of Funding Shocks. *Journal of Finance*. (2012). 67(6): 2015-2050.

(s) Eugene Fama and Kenneth French. Size, Value, and Momentum in International Stock Returns. *Journal of Financial Economics*. (2012). 105(3): 457–472.

(s) John M. Griffin, Nicholas H. Hirschey, and Partick J. Kelly. Why Does the Reaction to New Announcements Vary Across Countries? *Review of Financial Studies*. (2012). 24(12):3941-3992.

Topic 9: Dealing with Causality

(r) Chang, Yen-Cheng, Harrison Hong, and Inessa Liskovich. "Regression discontinuity and the price effects of stock market indexing." *Review of Financial Studies* (2014)

(r) Bryan Kelly, Alexander Ljungqvist; Testing Asymmetric-Information Asset Pricing Models, *The Review of Financial Studies*, Volume 25, Issue 5, 1 May 2012, Pages 1366–1413, <https://doi.org/10.1093/rfs/hhr134>

(s) Grace Xing Hu, Jun Pan, Jiang Wang, Early peek advantage? Efficient price discovery with tiered information disclosure, *Journal of Financial Economics*, 2017, ISSN 0304-405X

(s) Keys, B. J., T. Mukherjee, A. Seru, and V. Vig. Did securitization lead to lax screening? Evidence from subprime loans. *Quarterly Journal of Economics* (2010).

(s) Knupfer, S., Rantapuska, E. and Sarvimaki, M. (2017), Formative Experiences and Portfolio Choice: Evidence from the Finnish Great Depression. *The Journal of Finance*, 72: 133–166. doi:10.1111/jofi.12469

(s) Nam, Tong-yob, and Seungjoon Oh. "Non-Recourse Mortgage Law and Housing Speculation." (2016).

Topic 10: Financial Crisis

(r) Andrew W. Lo. [Reading About the Financial Crisis: A 21-Book Review](#). *Working Paper*. (2012).

(r) Mark Carey, Anil K Kashyap, Raghuram Rajan, and Rene M. Stulz. [Market Institutions, Financial Market Risks, and The Financial Crisis](#). *Journal of Financial Economics*. (2012). 104(3): 421-424.

(s) Joshua Coval, Jakub Jurek, and Erik Stafford. [The Economics of Structured Finance](#). *Journal of Economic Perspectives*. (2009). 23(1): 3-26.

(r) Mian, Atif, and Amir Sufi. [“The consequences of mortgage credit expansion: Evidence from the US mortgage default crisis.”](#) *The Quarterly Journal of Economics* 124.4 (2009): 1449-1496.

(s) Marco Di Maggio, Amir Kermani, Zhaogang Song, The value of trading relations in turbulent times, *Journal of Financial Economics*, Volume 124, Issue 2, May 2017, Pages 266-284, ISSN 0304-405X, <https://doi.org/10.1016/j.jfineco.2017.01.003>.

(r) Acharya, Viral V. and Richardson, Matthew P., Causes of the Financial Crisis (May 1, 2009). Critical Review, Vol. 21, Nos. 2 & 3, pp. 195-210, 2009. Available at SSRN: <https://ssrn.com/abstract=1514984>

Topic 11: Real Estate

(r) By Yuliya Demyanyk and Otto Van Hemert. [Understanding the Subprime Mortgage Crisis](#). *Review of Financial Studies*. (2011). 24(6) 1848-1880.

(r) Mian, A., Sufi, A. and Trebbi, F. (2015), Foreclosures, House Prices, and the Real Economy. *The Journal of Finance*, 70: 2587–2634. doi:10.1111/jofi.12310

(r) Griffin, John M., and Gonzalo Maturana. "Did Dubious Mortgage Origination Practices Distort House Prices?." *Review of Financial Studies* (2016): hhw013.

(r) Manuel Adelino, Antoinette Schoar, Felipe Severino; Loan Originations and Defaults in the Mortgage Crisis: The Role of the Middle Class. *Rev Financ Stud* 2016; 29 (7): 1635-1670. doi: 10.1093/rfs/hhw018

(r) Griffin, John M., Samuel Kruger, and Gonzalo Maturana. “What Drove the 2003–2006 House Price Boom and Subsequent Collapse? Disentangling Competing Explanations”, working paper.

(s) Atif Mian, Amir Sufi; Fraudulent Income Overstatement on Mortgage Applications During the Credit Expansion of 2002 to 2005. *Rev Financ Stud* 2017; 30 (6): 1832-1864. doi: 10.1093/rfs/hhw104

(s) Piskorski, Tomasz and Seru, Amit and Witkin, James, Asset Quality Misrepresentation by Financial Intermediaries: Evidence from RMBS Market (February 12, 2013). Forthcoming *Journal of Finance*.

(s) Christopher Mayer Karen Pence, and Shane M. Sherlund, The Rise in Mortgage Defaults. *Journal of Economic Perspectives*. (2009). Vol. 23(1): 23-50.

(s) Alex Chinco, Christopher Mayer; Misinformed Speculators and Mispricing in the Housing Market. *Rev Financ Stud* 2016; 29 (2): 486-522. doi: 10.1093/rfs/hhv061

Topic 12: Forensic Finance and TBA

(r) Zingales, L. (2015), Presidential Address: Does Finance Benefit Society?. *The Journal of Finance*, 70: 1327–1363. doi:10.1111/jofi.12295

(r) John M. Griffin, Amin Shams; Manipulation in the VIX?, *The Review of Financial Studies*, , hhx085, <https://doi.org/10.1093/rfs/hhx085>

(r) John M. Griffin, Gonzalo Maturana; Who Facilitated Misreporting in Securitized Loans?. *Rev Financ Stud* 2016; 29 (2): 384-419. doi: 10.1093/rfs/hhv130

(r) Egan, Mark and Matvos, Gregor and Seru, Amit, The Market for Financial Adviser Misconduct (2017). Forthcoming *JPE*.

(s) Jay Ritter. [Forensic Finance](#). *Journal of Economic Perspectives*. (2008). 2(3): 127-147.

(s) From J. Ritter's webpage: [Harry Markopolos's famous 2005 memo to the U.S. SEC alerting the regulators to the Madoff Ponzi scheme](#).

(s) John Griffin, Jordan Nickerson, and Dragon (Yongjun) Tang. [Rating Shopping or Catering? An Examination of the Response to Competitive Pressure for CDO Credit Ratings](#). *Review of Financial Studies*.

(s) John Griffin and Dragon Tang. Did Subjectivity Play a Role in CDO Credit Ratings? *The Journal of Finance*. (2011). 67(4): 1293-1328.

(s) John Griffin, Richard Lowery, Alessio Saretto; Complex Securities and Underwriter Reputation: Do Reputable Underwriters Produce Better Securities?, *The Review of Financial Studies*, Volume 27, Issue 10, 1 October 2014, Pages 2872–2925

(s) Stefan Zeume; Bribes and Firm Value. *Rev Financ Stud* 2017; 30 (5): 1457-1489. doi: 10.1093/rfs/hhw108

Topic 13: Mutual Funds

- (r) Kent Daniel, Mark Grinblatt, Sheridan Titman, and Russ Wermers. [Measuring Mutual Fund Performance with Characteristic-Based Benchmarks](#). *Journal of Finance*. (1997). 52: 1035-1058.
- (r) Marcin Kacperczyk, Clemens Sialm, and Lu Zheng. [Unobserved Actions of Mutual Funds](#). *Review of Financial Studies*. (2008). 21(6): 2379-2416.
- (r) Martijn Cremers and Antti Petajisto. [How Active Is Your Fund Manager? A New Measure that Predicts Performance](#). *Review of Financial Studies*. (2009). 22(9): 3329-3365. Focus on pages 3334-3340.
- (s) Frazzini, Andrea, Jacques Friedman, and Lukasz Pomorski. "Deactivating active share." *Financial Analysts Journal* 72.2 (2016): 14-21.
- (s) Cremers, Martijn, AQR in Wonderland: Down the Rabbit Hole of 'Deactivating Active Share' (and Back Out Again?) (June 30, 2015).
- (s) Joshua Coval and Erik Stafford. [Asset Fire Sales \(and Purchases\) in Equity Markets](#). *Journal of Financial Economics*. (2007). 86(2): 479-512.
- (s) Martijn Cremers, Miguel A. Ferreira, Pedro Matos, Laura Starks, Indexing and active fund management: International evidence, *Journal of Financial Economics*, Volume 120, Issue 3, 2016, Pages 539-560, ISSN 0304-405X
- (s) Judith Chevalier and Glenn Ellison. Risk Taking by Mutual Funds as a Response to Incentives. *Journal of Political Economy*. (1997). 105(6): 1167-1200.
- (s) Erik Sirri and Peter Tufano. Costly Search and Mutual Fund Flows. *Journal of Finance*. (1998). 53(5): 1589-1622.
- (s) Diane Del Guercio and Paula Tkac. The Determinants of the Flow of Funds of Managed Portfolios: Mutual Funds versus Pension Funds. *Journal of Financial and Quantitative Analysis*. (2002). 37(4): 523-558. Focus on pages 533-535.
- (s) Brad Barber, Terrance Odean, and Lu Zheng. Out of Sight, Out of Mind: The Effects of Expenses on Mutual Fund Flows. *Journal of Business*. (2005). 78(6): 2095-2120.
- (s) Eugene Fama and Kenneth R. French. Luck versus Skill in the Cross-Section of Mutual Fund Returns. *Journal of Finance*. (2009). 65(5): 1915-1947.
- (s) Berk Sensoy. Performance Evaluation and Self-Designated Benchmark Indexes in The Mutual Fund Industry. *Journal of Financial Economics*. (2009). 92(1): 25-39.
- (s) Zoran Ivković and Scott Weisbenner. Individual Investor Mutual Fund Flows. *Journal of Financial Economics*. (2009). 92(2): 223-237. Focus on pages 225-228.
- (s) Woodrow T. Johnson. Who Incentivizes the Mutual Fund Manager, New or Old Shareholders? *Journal of Financial Intermediation*. (2010). 19(2): 143-168.

(s) Berk, Jonathan B and Jules H Van Binsbergen, 2015, Measuring skill in the mutual fund industry, *Journal of Financial Economics* 118, 1–20

(s) Andrew Koch, Stefan Ruenzi, Laura Starks; Commonality in Liquidity: A Demand-Side Explanation. *Rev Financ Stud* 2016; 29 (8): 1943-1974. doi: 10.1093/rfs/hhw026

Topic 14: Institutions and Hedge Funds

(s) James Bennet, Richard Sias, and Laura Starks. [Greener Pastures and the Impact of Dynamic Institutional Preferences](#). *Review of Financial Studies*. (2003). 16(4): 1203-1238.

(s) Nicolas Bollen and Veronika Pool. [Do Hedge Fund Managers Misreport Returns? Evidence from a Pooled Distribution](#). *Journal of Finance*. (2009). 64(5): 2257-2288. (Pages 281-313 of the link)

(s) Itzhak Ben-David, Francesco Franzoni, Augustin Landier, Rabih Moussaw. [Do Hedge Fund Managers Manipulate Stock Prices?](#) *Journal of Finance*, forthcoming.

(s) Bela Reza, Richard Sias, and Harry Turtle. [Hedge Fund Herding and Crowded Trades: The Apologists' Evidence](#). Working Paper.

(s) Richard Sias. Institutional herding. *Review of Financial Studies*. (2004). 17(1): 165–206.

(s) John Y. Campbell, Tarun Ramadorai, and Allie Schwartz. Caught on Tape: Institutional Trading, Stock Returns, and Earnings Announcements. *Journal of Financial Economics*. (2009). 92(1): 66-91.

(s) Boyson, Nicole M., Christof W. Stahel, and Rene M. Stulz. Hedge Fund Contagion and Liquidity Shocks. *Journal of Finance*. (2010). 65(5): 1789-1816.

(s) Yin, C. (2016), The Optimal Size of Hedge Funds: Conflict between Investors and Fund Managers. *The Journal of Finance*, 71: 1857–1894. doi:10.1111/jofi.12413

Topic 14a: Institutions and Hedging: Informed Trading

(r) Cohen, Lauren, Christopher Malloy, and Lukasz Pomorski. Decoding Inside Information. *Journal of Finance*. (2012). 67(3): 1009-1043.

(s) Rawley Z. Heimer; Peer Pressure: Social Interaction and the Disposition Effect. *Rev Financ Stud* 2016; 29 (11): 3177-3209. doi: 10.1093/rfs/hhw063

(s) Cohen, Lauren H., Christopher J. Malloy, and Andrea Frazzini. [Sell-Side School Ties](#). *Journal of Finance*. (2010). 65(4): 1409-1437.

Fang, V. W., Huang, A. H. and Karpoff, J. M. (2016), Short Selling and Earnings Management: A Controlled Experiment. *The Journal of Finance*, 71: 1251–1294. doi:10.1111/jofi.12369

Ahern, Kenneth R. "Information networks: Evidence from illegal insider trading tips." *Journal of Financial Economics* 125, no. 1 (2017): 26-47.

Topic 15: Behavioral Finance

(s) David Hirshleifer, Behavioral Finance. *Annual Review of Financial Economics*, forthcoming.

(r) Nicholas Barberis and Richard Thaler. Chapter 18: A Survey of Behavioral Finance". [Handbook of the Economics of Finance](#). Edited by G.M. Constantinides, M. Harris and R. Stulz.

(s) Ben-David, Itzhak, and David Hirshleifer. "Are investors really reluctant to realize their losses? Trading responses to past returns and the disposition effect." *Review of Financial Studies* 25.8 (2012): 2485-2532.

(s) Nicholas Barberis, Andrei Shleifer and Jeffrey Wurgler. [Comovement](#). *Journal of Financial Economics*. (2005). 75(2): 283-317.

(r) Markus Brunnermeier and Stefan Nagel. [Hedge Funds and the Technology Bubble](#). *Journal of Finance*. (2004). 59(5): 2013-2040.

(s) Coval, Joshua D., and Tyler Shumway. [Do Behavioral Biases Affect Prices?](#) *Journal of Finance*. (2005). 60(1): 1-34.

(s) Alok Kumar and George Korniotis. State-Level Business Cycles and Local Return Predictability. *Journal of Finance*. (2013). 68(3): 1037-1096.

(s) John R. Graham and Alok Kumar. Do Dividend Clienteles Exist? Evidence on Dividend Preferences of Retail Investors. *Journal of Finance*. (2006). 61(3): 1305-1336.

(s) Alok Kumar and Charles Lee. Retail Investor Sentiment and Return Comovements. *Journal of Finance*. (2006). 61(5): 2451-2486.

(s) Brad Barber, Terrance Odean, and Ning Zhu. Systematic Noise. *Journal of Financial Markets*. (2009). 12(4): 547-569.

(s) John Griffin, Jeffrey Harris, Tao Shu, and Selim Topaloglu. Who Drove and Burst the Tech Bubble? *Journal of Finance*. (2011). 66(4): 1251-1290.

(s) Alok Kumar, Jeremy K. Page, and Oliver G. Spalt. Religious Beliefs, Gambling Attitudes, and Financial Market Outcomes. *Journal of Financial Economics*. (2011). 102(3): 671-708.

(s) Tom Y. Chang, Samuel M. Hartzmark, David H. Solomon, Eugene F. Soltes; Being Surprised by the Unsurprising: Earnings Seasonality and Stock Returns. *Rev Financ Stud* 2017; 30 (1): 281-323. doi: 10.1093/rfs/hhw044

Topic 16: Market Microstructure, Liquidity, and Shorting

(r) John Campbell, Andrew Lo and A. Craig MacKinlay. Chapter 3: Market Microstructure. The Econometrics of Financial Markets. (1997). Princeton, N.J.: Princeton University Press.

(r) Cohen, Lauren, Karl B. Diether, and Christopher J. Malloy. Supply and Demand Shifts in the Shorting Market. *Journal of Finance*. (2007). 62(5): 2061-2096.

(s) Geert Bekaert, Campbell R. Harvey, and Christian Lundblad. Liquidity and Expected Returns: Lessons from Emerging Markets. *Review of Financial Studies*. (2007). 20(6): 1783-1831.

(s) Yakov Amihud. Illiquidity and Stock Returns: Cross-section and Time Series Effects. *Journal of Financial Markets*. (2002). 5(1): 31-56.

(s) Yakov Amihud, Haim Mendelson, and Lasse Pedersen. Liquidity and Asset Prices. *Foundations and Trends in Finance*. (2005). 1(4): 269-364.

(s) Viral Acharya and Lasse Pedersen. Asset Pricing with Liquidity Risk. *Journal of Financial Economics*. (2005). 77(2): 375–410.

(s) Nicholas Hirschey. Do High-Frequency Traders Anticipate Buying and Selling Pressure? Job Market Paper, UT Austin. (2011).

(s) Kirilenko, A., Kyle, A. S., Samadi, M. and Tuzun, T. (2017), The Flash Crash: High-Frequency Trading in an Electronic Market. *The Journal of Finance*, 72: 967–998. doi:10.1111/jofi.12498

(s) Eric K. Kelley, Paul C. Tetlock; Retail Short Selling and Stock Prices. *Rev Financ Stud* 2017; 30 (3): 801-834. doi: 10.1093/rfs/hhw089

(s) David E. Rapach, Matthew C. Ringgenberg, Guofu Zhou, Short interest and aggregate stock returns, *Journal of Financial Economics*, Volume 121, Issue 1, 2016, Pages 46-65, ISSN 0304-405X

(s) Jonathan Brogaard, Terrence Hendershott, Ryan Riordan, High frequency trading and the 2008 short-sale ban, *Journal of Financial Economics*, Volume 124, Issue 1, April 2017, Pages 22-42, ISSN 0304-405X, <https://doi.org/10.1016/j.jfineco.2017.01.008>.

Sean Foley, Tālis J. Putniņš, Should we be afraid of the dark? Dark trading and market quality, *Journal of Financial Economics*, Volume 122, Issue 3, 2016, Pages 456-481, ISSN 0304-405X,

(s) Clark-Joseph, Adam D. and Ye, Mao and Zi, Chao, Designated Market Makers Still Matter: Evidence from Two Natural Experiments (October 14, 2016). *Journal of Financial Economics (JFE)*, Forthcoming.

Course Policy

Fairness to Students: I strive to treat students with dignity and fairness. This does not mean that I will agree with your ideas. If you feel that I have been unfair in any way, please let me know. It takes courage to do so.

Readings: Readings should be done **in advance of the class** in which material will be discussed. The outline below will advise of the relevant topic of discussion. Additional handouts may be made available in class. However, if a student misses a class/handout, (whether excused or unexcused) it is their responsibility to obtain the reading from another student, not the instructor or TA.

Grading: There are **no verbal appeals** of grade changes. Exams will not be returned and can be reviewed only during the week following the reception of the grade. You should submit a **written** statement explaining the problem within one week of receiving your grade and we will be happy to re-grade any exam or assignment. The entire exam or case will be re-graded and the score may increase, remain the same, or decrease.

Academic Dishonesty

The McCombs School of Business has no tolerance for acts of scholastic dishonesty. The responsibilities of both students and faculty with regard to scholastic dishonesty are described in detail in the BBA Program's Statement on Scholastic Dishonesty at <http://www.mcombs.utexas.edu/BBA/Code-of-Ethics.aspx>. By teaching this course, I have agreed to observe all faculty responsibilities described in that document. By enrolling in this class, you have agreed to observe all student responsibilities described in that document. If the application of the Statement on Scholastic Dishonesty to this class or its assignments is unclear in any way, it is your responsibility to ask me for clarification. Students who violate University rules on scholastic dishonesty are subject to disciplinary penalties, including the possibility of failure in the course and/or dismissal from the University. Since dishonesty harms the individual, all students, the integrity of the University, and the value of our academic brand, policies on scholastic dishonesty will be strictly enforced. You should refer to the Student Judicial Services website at <http://deanofstudents.utexas.edu/sjs> to access the official University policies and procedures on scholastic dishonesty as well as further elaboration on what constitutes scholastic dishonesty.

Academic dishonesty includes but is not limited to: lying, cheating, stealing (e.g., answers), multiple submissions, plagiarism (including, improper attribution of sources), unauthorized cooperation, and misrepresentation of facts. It is your responsibility to understand all attributes of proper conduct. In particular, students should understand exactly how to engage in proper citations. Changing sentence structure around is still paraphrasing. If ideas are borrowed from someone and phrased in your own wording, citation is always required. Lack of knowledge is no excuse. **Please carefully read:** http://deanofstudents.utexas.edu/sjs/scholdis_plagiarism.php and <http://writing.yalecollege.yale.edu/advice-students/using-sources/understanding-and-avoiding-plagiarism/what-plagiarism>

Any individual assignment should be completed individually without help from others. Group *preparation* for examinations is acceptable and encouraged.

McCombs Classroom Professionalism Policy

The highest professional standards are expected of all members of the McCombs community. The collective class reputation and the value of the program's experience hinges on this.

Faculty are expected to be professional and prepared to deliver value for each and every class session. Students are expected to be professional in all respects.

Email and Internet are not allowed during lectures. Mobile phones and other electronic devices have to be switched off during class at all times.

The Texas classroom experience is enhanced when:

- **Students arrive on time.** On time arrival ensures that classes are able to start and finish at the scheduled time. On time arrival shows respect for both fellow students and faculty and it enhances learning by reducing avoidable distractions.
- **Students display their name cards.** This permits fellow students and faculty to learn names, enhancing opportunities for community building and evaluation of in-class contributions.
- **Students minimize unscheduled personal breaks.** The learning environment improves when disruptions are limited. Should you have to leave class early, please have the courtesy of letting the instructor know before the beginning of the period and leave quietly so as not to disturb the other members of the class.
- **Students are fully prepared for each class.** Much of the learning takes place during classroom discussions. When students are not prepared they cannot contribute to the overall learning process. This affects not only the individual, but their peers who count on them, as well.
- **Students attend the class section to which they are registered.** Learning is enhanced when class sizes are optimized. Limits are set to ensure a quality experience. When section hopping takes place some classes become too large and it becomes difficult to contribute. When they are too small, the breadth of experience and opinion suffers.
- **Laptops are closed and put away.** When students are surfing the web, responding to e-mail, text messaging each other, and otherwise not devoting their full attention to the topic at hand they are doing themselves and their peers a major disservice. Those around them face additional distraction. Fellow students cannot benefit from the insights of the students who are not engaged.
- **Phones and wireless devices are either off or completely on silent mode.** Any student text-messaging or emailing during class will be asked to leave the class. We've all heard the annoying ringing in the middle of a meeting. When a true need to communicate with someone outside of class exists (e.g., for some medical need) please inform the professor prior to class.

Students with Disabilities

Students with disabilities may request appropriate academic accommodations from the Division of Diversity and Community Engagement, Services for Students with Disabilities, 512-471-6259, <http://www.utexas.edu/diversity/ddce/ssd/>.

Religious Holy Days

By UT Austin policy, you must notify me of your pending absence at least fourteen days prior to the date of observance of a religious holy day. If you must miss a class, an examination, a work assignment, or a project in order to observe a religious holy day, you will be given an opportunity to complete the missed work within a reasonable time after the absence.

Campus Safety

Please note the following recommendations regarding emergency evacuation, provided by the Office of Campus Safety and Security, 512-471-5767, <http://www.utexas.edu/safety>:

- Occupants of buildings on The University of Texas at Austin campus are required to evacuate buildings when a fire alarm is activated. Alarm activation or announcement requires exiting and assembling outside.
- Familiarize yourself with all exit doors of each classroom and building you may occupy. Remember that the nearest exit door may not be the one you used when entering the building.
- Students requiring assistance in evacuation should inform the instructor in writing during the first week of class.

- In the event of an evacuation, follow the instruction of faculty or class instructors.
- Do not re-enter a building unless given instructions by the following: Austin Fire Department, The University of Texas at Austin Police Department, or Fire Prevention Services office.
- Behavior Concerns Advice Line (BCAL): 512-232-5050

Further information regarding emergency evacuation routes and emergency procedures can be found at: <http://www.utexas.edu/emergency>.