

## **BUS 938 -- Investments Seminar -- Readings in Empirical Research.**

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**Course Description:** This course covers a broad array of topics that have been the focus of recent research in the field of investments. We'll focus on forthcoming and recently published work, and the background papers that developed and contributed to this work.

**Course Objective:** This course will help the student become well-informed about the content and methodology behind current research in the field of investments. We will focus on empirical research related to asset pricing. We will provide an exposure to the broad array of methodological tools used in empirical research in finance, paying special attention to the many econometric issues that arise in financial markets research. This is a hands-on course. On occasion you will be given data and asked to conduct your own empirical analyses. You will also develop your own research project.

**Course Structure and Grading:** This is a readings course. Four or five papers will be assigned each week on a specific topic that will be the focus of discussion at the next weekly session. All students will be expected to read all papers assigned for each weekly session. Each student will be primarily responsible for one of the papers assigned, and will lead a 15-minute discussion of that paper at the next weekly session. By noon on the day before each weekly session, all students will email me a **detailed summary** of the paper they are primarily responsible for that week (maximum 2 pages, single-spaced). At the same time, all students will also email me a **brief summary** of every other paper assigned that week (maximum ½ page, single-spaced, for each brief summary).

Each weekly session will consist of in-depth discussion of the papers assigned. Active participation is critical for the success of this class. Every week, all students must prepare properly to ensure lively and productive discussion on all papers. Your grade will be determined by the quality and rigor of your:

- (i) written summaries provided on the day before each weekly session,
- (ii) presentation on the paper you are primarily responsible for each week,
- (iii) participation in the class discussion on all other papers each week,
- (iv) written summaries of empirical analyses you are assigned,
- (v) research project (see next page),
- (vi) effort.

**Course Materials:** The reading list follows. Most papers on this list are available on the web. The last page of this syllabus provides a brief summary of how to use these electronic resources. I have also placed electronic copies of most of these papers on the Business School O: drive, at the ftp address listed above. I also have hard copies of these papers in my office.

### **Research Component of the Course:**

One major goal of this course is to get you excited about, and actively involved in, conducting your own research. Toward this end, I will expect each of you to develop or improve upon a research project of your own this semester. One possible way to satisfy this component of the course would be to develop and conduct your own research on a topic you select. Another way would be to reproduce the empirical work of a recently published paper. Ideally, the final product of your effort would be a research paper suitable for submission to a journal. Realistically, I will expect substantive progress toward that ultimate goal over the course of the semester.

Each student will meet with me early in the semester to discuss your research efforts. If you already have a current research project underway, you may wish to work at making substantive progress on that project during the semester. If you don't have a current project underway, I'll encourage you to consult with your advisor or any other faculty you'd like to work with, to develop a project. Either solo-authored or co-authored projects are suitable for this purpose. In any case, I'll need to review and approve your project early in the semester, to help you satisfy this component of the course.

Your grade on this component of the course will depend on the progress you make during the semester.

## BUS 938 - Readings List

### I. Overview.

#### A. Writing Tips & Professional Etiquette.

1. Cochrane, "Writing Tips for Ph.D. Students," working paper, 2005.
2. Hamermesh, 1992, "The Young Economist's Guide to Professional Etiquette," *Journal of Economic Perspectives* (6), 169-179.
3. Hamermesh, 1993, "Professional Etiquette for the Mature Economist," *AER* (83), 34-39.

#### B. Major Paradigms in Finance.

1. Martin, Cox, and MacMinn, 1988, "Overview of Financial Theory," Chapter 1 from The Theory of Finance, New York: Dryden, 1988.
2. Cochrane, J., "New Facts in Finance," *Economic Perspectives*, Federal Reserve Bank of Chicago, 2002, 36-58.
3. Schwert, 2003, "Anomalies and Market Efficiency," *Handbook of the Economics of Finance*, Chapter 15, Ed., G. M. Constantinides, M. Harris, and R. Stulz, Elsevier Science B. V.

### II. Methodology in Empirical Asset Pricing Research.

#### A. Regression Approach.

1. Fama & Macbeth regressions, 1973, *JPE* (71), 607-636.
2. Jensen's alpha, 1968, *JF* (23), 389-416.
3. Fama & French's 3-factor & 5-factor models:  
1992, *JF* (47), 427-465; 1993, *JFE* (39), 3-56.
4. Common approaches in Market Microstructure research.
5. Bootstrapping.

#### B. Portfolio Approach.

1. Sias, 2005, "Reconcilable Differences: Momentum Trading by Institutions," working paper (See also under "Momentum Strategies").
2. Griffin, Harris, and Topaloglu, 2003, *JF* (58), 2285-2320.  
(See also under "Are Institutions Informed?")
3. Calendar Time Portfolio Approach (See also under "Problems Measuring Long Term Abnormal Performance").
  - a. Mitchell & Stafford, 2000, *JB* (73), 287-329.
  - b. Fama, 1998, *JFE* (49), 283-306.

#### C. Event Study Approach.

1. Campbell, Lo, & MacKinlay, 1997, *The Econometrics of Financial Markets*, Chapter 4, "Event Study Analysis."
2. Brown & Warner, 1980, *JFE* (8), 205-258. Measuring Monthly AR's.
3. Brown & Warner, 1985, *JFE* (13), 3-31. Measuring Daily AR's.

- D. Problems Measuring Long Term Abnormal Performance.
1. Barber & Lyon, 1997, JFE (43), 341-372.
  2. Kothari & Warner, 1997, JFE (43), 301-339.
  3. Lyon, Barber, & Tsai, 1999, JF (54), 165-201.
  4. Mitchell & Stafford, 2000, "Managerial decisions and long-term stock price performance," JB (73), 287-329.
  5. Fama, 1998, "Market efficiency, long-term returns, and behavioral finance," JFE (49), 283-306.
- E. The ARCH/GARCH effect.
1. Campbell, Lo, & MacKinlay, 1997, *The Econometrics of Financial Markets*, Chapter 12 (just sections 12.1 & 12.2).
  2. Akgiray, 1989, JB (62), 55-80.
  3. Bollerslev, 1987, REStat (69), 542-547.
  4. Bollerslev, 1986, *Journal of Econometrics* (31), 307-327.
  5. Bollerslev, Chou & Kroner, 1990, *Journal of Econometrics* (52), 5-59.
  6. Engle, 1982, *Econometrica* (50), 987-1008.
- F. Volatility issues.
1. Shiller, 1981, AER (71), 421-436.
  2. Schwert, 1989, JF (44), 1115-1153.
  3. French, Schwert, & Stambaugh, 1987, JFE (19), 3-30.
  4. Bekaert & Wu, 2000, RFS (13), 1-41.
- G. Data Snooping.
1. Foster, Smith, & Whaley, 1997, JF (52), 591-607.
  2. Lo & MacKinlay, 1990, RFS (3), 431-467.
  3. Bossaerts & Hillion, 1999, RFS (12), 405-428.
  4. Yule, 1926, *Journal of the Royal Statistical Society* (89), 1-64.
- H. Spurious Regression.
1. Enders, Walter, 1995, *Applied Econometric Time Series*, pp. 166-169, 211-221.
  2. Granger & Newbold, 1974, *Journal of Econometrics*, (4), 111-120.
  3. Ferson, Sarkissian, & Simin, 2002, "Spurious Regressions in Financial Economics?" working paper.
  4. Lanne, 2002, REStat (84), 407-415.
  5. Phillips, 1998, *Econometrica* (66), 1299-1326.
- I. Factor Analysis.
1. Ross, 1976, JET (13), 341-360.
  2. Roll & Ross, 1980, JF (35), 1073-1103.
  3. Chen, 1983, JF (38), 1393-1414.
  4. Dhrymes, Friend, & Gultekin, 1984, "A Critical Re-Examination of the Empirical Evidence on the APT," JF (39), 323-346.

5. Roll & Ross, 1984, "A Critical Re-Examination of the Empirical Evidence on the APT: A Reply," *JF* (39), 347-350.
6. Dhrymes, 1984, "The Empirical Relevance of Arbitrage Pricing Models," *JPM* (xx), 34-44.
7. Ross, 1984, "Reply to Dhrymes: APT is Empirically Relevant," *JPM* (xx), 54-56.
8. Campbell, Lo, & MacKinlay, 1997, *The Econometrics of Financial Markets*, Chapter 6, "Multifactor Pricing Models."

### III. Mainstream Topics in Empirical Asset Pricing Research.

#### A. Short term return reversals.

1. Lehmann, B. N., 1990, *QJE* (105), 1-28.
2. Jegadeesh, N., 1990, *JF* (45), 881-898.
3. Jegadeesh & Titman, 1995, *Journal of Financial Intermediation* (4), 116-132.

#### B. Herding.

1. Nofsinger & Sias, 1999, *JF* (54), 2263-2295.
2. Sias, 2002, "Institutional Herding," working paper.
3. Welch, 2000, *JFE* (58), 369-396.
4. Wermers, 1999, *JF* (54), 581-622.

#### C. Momentum Strategies, Positive Feedback Trading.

1. Grinblatt, Titman, & Wermers, 1995, *AER* (85), 1088-1105.
2. Jegadeesh & Titman, 1993, *JF* (48), 65-91.
3. Jegadeesh & Titman, 2001, *JF* (56), 699-720.
4. Wermers, 2003, "Is Money Really Smart? ..." working paper.
5. Sias, 2005, "Reconcilable Differences: Momentum Trading by Institutions," working paper.

#### D. Under- & Over-Reactions.

1. DeBondt & Thaler, 1985, *JF* (40), 793-805.
2. Kyle & Wang, 1997, *JF* (52), 2073-2090.
3. Daniel, Hirshliefer, & Subrahmanyam, 1998, *JF* (53), 1839-1886.
4. Cohen, Gompers, & Vuolteenaho, 2002, *JFE* (66), 409-462.

#### E. Contrarian Strategies, Negative Feedback Trading.

1. Lakonishok, Schleifer, & Vishny, 1994, *JF* (49), 1541-1578.
2. Conrad, Gultekin, & Kaul, 1997, *JBES* (15), 279-386.
3. Goetzmann & Massa, 2002, *JFQA* (37), 375-390.
4. Kaniel, Saar, & Titman, 2004, "Individual Investor Sentiment and Stock Returns," working paper (see also under "Are Individuals informed?").

F. Are Institutions Informed?

1. Chan & Lakonishok, 1995, JF (50), 1147-1174.
2. Chen, Jegadeesh, & Wermers, 2000, JFQA (35), 343-368.
3. Wermers, 2000, JF (55), 1655-1695.
4. Griffin, Harris, & Topaloglu, 2003, JF (58), 2285-2320.
5. Sias, Starks, & Titman, 2001, "The Price Impact of Institutional Trading," working paper.
6. Kosowski, Timmermann, & Wermers, 2005, "Can Mutual Fund Stars Really Pick Stocks? ..." working paper.
7. Ali, Durtschi, Lev, & Trombley, 2005, "Changes in Institutional Ownership and Subsequent Earnings Announcement Abnormal Returns," JAAF, forthcoming.

G. Are Individuals Informed?

1. Grinblatt & Keloharju, 2000, JFE (46), 43-67.
2. Barber, Lee, Liu, & Odean, 2005, "Who Loses from Trade? Evidence from Taiwan," working paper.
3. Barber & Odean, 2000, JF (55), 773-806.
4. Barber & Odean, 2001, QJE (116), 261-292.
5. Barber & Odean, 2002, "All That Glitters: The Effect of Attention and News on the Buying Behavior of Individual and Institutional Investors," working paper.
6. Barber & Odean, 1999, "Boys Will Be Boys: Gender, Overconfidence, and Common Stock Investment," working paper.
7. Jackson, 2003, "The Aggregate Behaviour of Individual Investors," working paper.
8. Kaniel, Saar, & Titman, 2004, "Individual Investor Sentiment and Stock Returns," working paper.

H. Short Sales Constraints.

1. Rubinstein, M., 2004, "Great Moments in Financial Economics III: Short Sales and Stock Prices," *Journal of Investment Management* (2:1), 16-31.
2. JFE, 2002 (66), *Special Issue on Short Interest & Transactions Costs*.
3. Field & Hanka, 2001, JF (56), 471-500.

I. The Miller Hypothesis.

1. Miller, 1977, JF (32), 1151-1168.
2. Diether, Malloy, & Scherbina, 2002, JF (57), 2113-2141.
3. Chen, Hong, & Stein, 2002, JFE (66), 171-205.
4. Ofek & Richardson, 2003, JF (58), 1113-1137.
5. Asquith, Pathak, & Ritter, 2005, "Short Interest, Institutional Ownership, & Stock Returns," JFE forthcoming (51).
6. Boehme, Danielsen, & Sorescu, 2005, "Short Sale Constraints, Differences of Opinion, and Overvaluation," JFQA forthcoming (40).

- J. The Association between Volume and Returns.
1. Brennan, Chordia, & Subrahmanyam, 1998, JFE (49), 345-373.  
(A small part of their study finds a negative relation between average returns and recent past dollar trading volume.)
  2. Gervais, Kaniel, & Mingelgrin, 2001, JF (56), 877-919.
  3. Llorente, Michaely, Saar, & Wang, 2002, RFS (15), 1005-1047.
  4. Baker & Stein, 2004, *Journal of Financial Markets* (7), 271-299.
  5. Cochrane, 2002, "Stocks as Money: Yield and the Tech Bubble," working paper.
  6. Schienkman, & Xiong, 2003, JPE (111), 1183-1219.

#### IV. Market Microstructure Issues in the mainstream.

- A. Stylized facts in microstructure.
1. O'Hara, 1997, *Market Microstructure Theory*, Blackwell Publishers.
  2. Easley & O'Hara, 2002, "Market Microstructure," *Handbook of the Economics of Finance*, Chapter 17, Ed., G. M. Constantinides, M. Harris, and R. Stulz, Elsevier Science B. V.
- B. Theory & Empirical Work.
1. Informed versus Uninformed Trading.
    - a. Fama, 1991, JF (46), 1575-1681.
    - b. Grossman & Stiglitz, 1980, AER (70), 393-408.
    - c. Kyle, 1985, *Econometrica* (53), 1315-1335.
  2. Liquidity.
    - a. Grossman & Miller, 1988, JF (43), 617-633.
    - b. Amihud & Mendelson, 1986, JFE (32), 223-249.
    - c. Brennan & Subrahmanyam, 1996, JFE (42), 441-464.
    - d. Glosten & Harris, 1988, JFE (21), 123-142.
    - e. Roll, 1984, JF (39), 1127-1139.
    - f. Chordia, Roll, & Subrahmanyam, 2000, JFE (56), 3-27.
  3. Noise Trading.
    - a. Black, "Noise," 1986, JF (41), 529-543.
    - b. Kyle, 1985, *Econometrica* (53), 1315-1336.
    - c. DeLong, Shliefer, Summer, & Waldman, 1990, JPE (98), 703-738.
    - d. Lee, Shliefer, & Thaler, 1991, JF (46), 75-109.
    - e. Barber, Odean, & Zhu, 2003, "Systematic Noise," working paper, UC-Davis.
    - f. Bloomfield, O'Hara, & Saar, 2005, "The Limits of Noise Trading: An Experimental Analysis," working paper.

4. Information Flow and the Trading Process.
  - a. Hasbrouck, 1987, JF (42), 1035-1048.
  - b. Hasbrouck, 1988, JFE (22), 2299-252.
  - c. Hasbrouck, 1991, JF (46), 179-207.
  
5. Volume & Volatility.
  - a. Anderson, 1996, JF (51), 169-203.
  - b. Bamber, Barron, & Stober, 1997, TAR (72), 575-597.
  - c. Bamber, Barron, & Stober, 1999, JFQA (34), 369-386.
  - d. Kandel & Pearson, 1995, JPE (103), 831-872.
  - e. Kim & Verrecchia, 1991, JFE (30), 273-309.
  - f. Kim & Verrecchia, 1997, JAE (24), 395-419.
  - g. Karpoff, 1987, JFQA (22), 109-126.
  - h. Mitchell & Mulherin, 1994, JF (49), 923-950.
  - i. Berry & Howe, 1994, JF (49), 1331-1345.

Electronic Resources:

A. To search for current working papers (e-papers):

1. SSRN: [www.ssrn.com](http://www.ssrn.com) - type key words in title, author's name, ...
2. KU electronic library: <http://www.lib.ku.edu/ejlink.html> - type journal title ...

B. For electronic copies of papers published in JF & JFE:

1. Journal of Finance.

For forthcoming JF papers:

<http://www.afajof.org/Forpaper.shtml>

For recent JF papers, 1998 – present:

<http://www.blackwellsynergy.com/servlet/useragent?func=showIssues&code=jofi>

For earlier JF papers (1949-1998):

<http://www.jstor.org/browse/00221082?config=jstor>

<http://www.jstor.org/journals/00221082.html>

2. Journal of Financial Economics.

For most recent 12 mo. of JFE papers:

<http://www.sciencedirect.com/web-editions?ob=JournalURL&cdi=5938&auth=y&acct=C000042494&version=1&urlVersion=0&userid=768463&md5=a08647c9e62182f48bf862ee1ec76160>

For more JFE stuff (w/ lots of useful links AND forthcoming papers)

<http://jfe.rochester.edu/>

C. To search for Stanford papers:

<http://gobi.stanford.edu/researchpapers/default.asp>