SIMON FRASER UNIVERSITY  
Department of Economics

Econ 482 – SELECTED TOPICS: ASSET PRICING  
Syllabus – Fall 2003

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COURSE OBJECTIVES AND PREREQUISITES

This course surveys a variety of topics in asset pricing. Among the topics covered are: (1) Portfolio theory, (2) the Capital Asset Pricing Model (CAPM), (3) the Equity Premium Puzzle, (4) Specification and testing of linear factor models, (5) Hansen-Jagannathan bounds, (6) the term structure of interest rates, and (7) option pricing.

Students should have some prior knowledge of basic micro- and macroeconomics (eg, Econ 301 and 305). Some prior knowledge of basic regression analysis and calculus will also be assumed. More generally, students should be aware that finance is a technical field, and be comfortable working with mathematical models.

COURSE STRUCTURE

The course is divided into two main parts. The first part covers theory, and the second part covers empirical estimation and testing. However, the dividing line between theory and empirical work is not that distinct. Finance is the quintessential example in economics of a field that has benefited from a productive interaction between theory and empirical evidence. So it’s unavoidably the case that some empirical evidence is discussed in the first half of the course and that some theory continues to be discussed in the second half.

COURSE EVALUATION

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<td>Problem Sets</td>
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<td>Term Paper</td>
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<td>Midterm exam (Thursday, October 16)</td>
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The best way to learn how to apply asset pricing models is to work through problems. Therefore, an important part of the course is a pair of problem sets, one before the midterm and one after the midterm. Students are encouraged to work in groups, but everyone must turn in their own copy. The problem sets are available as PDF files on the class webpage (at www.sfu.ca/˜kkasa/). Students must also write a short term paper (10-15 pages) on a topic of their choice. Depending on the student’s interests and background, it can either be a literature survey, a replication of previously published empirical work, or their own original research.

COURSE MATERIALS

There is one required book for this course: Asset Pricing, by John Cochrane (2001) published by Princeton University Press. There are also a number of journal articles, working papers, and data sets that are available for download on the course webpage.

Cochrane’s book is available at the campus bookstore and on reserve at the library.
COURSE OUTLINE AND READINGS

I. THEORY (13 lectures)

Sept. 2  -  Introduction
          Cochrane text, Preface

Sept. 4  -  Empirical Overview

Sept. 9  -  Diversification and Mean-Variance Efficiency

Sept. 11 -  The CAPM
          Campbell (2003), “Lecture Notes” (pgs. 12-22)

Sept. 16 -  Utility-Theoretic Derivations of the CAPM

Sept. 18 -  The Consumption-Based CAPM/Stochastic Discount Factors
          Cochrane text, Chpt. 1 (pgs. 1-27)

Sept. 23 -  Applying the Consumption-Based CAPM
          Cochrane text, Chpt. 2

Sept. 25 -  Contingent Claims Markets
          Cochrane text, Chpt. 3

Sept. 30 -  Mean-Variance Frontiers and Beta Representations
          Cochrane text, Chpt. 5 (pgs. 79-86, 95-100)

Oct. 2   -  The Relationship Between Betas and Stochastic Discount Factors
          Cochrane text, Chpt. 6 (pgs. 101-113)

Oct. 7   -  Conditioning Information: Conditional vs Unconditional Pricing Models
          Cochrane text, Chpt. 8 (pgs. 133-141)
          Cochrane (1999b), “Portfolio Advice for a Multifactor World”

Oct. 9   -  Alternative Factor Pricing Models
          Cochrane text, Chpt. 9 (pgs. 149-162, 166-173)

Oct. 14  -  Pitfalls in Implementing Factor Models
          Cochrane text, Chpt. 7
          Problem Set 1 due in class
Oct. 16 – Midterm Exam (Closed Book)

II. ESTIMATION AND TESTING (11 lectures)

Cochrane text, Chpt. 10

Oct. 23 – Regression-Based Tests of Linear Factor Models
Cochrane text, Chpt. 12

Oct. 28 – Time Series Evidence: Mean Reversion and Excess Volatility
Cochrane text, Chpt. 20 (pgs. 387-420)

Oct. 30 – Cross-Sectional Evidence
Cochrane text, Chpt. 20 (pgs. 434-452)

Nov. 4 – Recent Extensions of the CAPM

Nov. 6 – The Equity Premium Puzzle
Cochrane text, Chpt. 21 (pgs. 455-465)

Nov. 11 – No Class (Remembrance Day)

Nov. 13 – The Equity Premium Puzzle: Proposed Solutions
Cochrane text, Chpt. 21 (pgs. 465-484)

Nov. 18 – The Equity Premium Puzzle: More Proposed Solutions

Nov. 20 – Summary and Review of Empirical Work on Asset Pricing

Nov. 25 – The Efficient Markets/Behavioral Finance Debate

Nov. 27 – The Efficient Markets/Behavioral Finance Debate
Problem Set 2 due in class

Dec. 9 – FINAL EXAM