Syllabus: BA 855
Fall 2006

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1 Recommended Texts

- Ingersoll, J., 1987 "Theory of Financial Decision Making," Rowman and Littlefield, Savage, MD.
- Cochrane, J., 2001, "Asset Pricing," Princeton University Press, Princeton, NJ
- Huang, C. and R. Litzenberger, 1987, "Foundations for Financial Economics," Prentice Hall, Englewood Cliffs, NJ
- Gollier, C., 2001, "The Economics of Risk and Time, MIT Press, Cambridge, MA.

2 Grading Policy

- Weekly Problem Sets 25%
- In-class participation 10%
- Presentations 25%
- Final Exam 40%

3 Readings

All article readings are required; chapter readings are recommended. You should be prepared each class to answer questions based on the readings.

4 Presentations

You will each be assigned at least one article to present to the class. You should view it as your job to professionally teach the class the content of the article. Presentations should be of the quality that we see from visiting seminar speakers. I will gladly meet with you prior to your presentation to discuss its content and/or the paper you are to discuss.

5 Class Schedule

- (11/3): Risk, Risk Aversion and Portfolio Choice
  - Readings
    1. Gollier, Chapters 1 and 2 and/or
    2. Huang and Litzenberger, Chapter 1 and/or
    3. Ingersoll, Chapter 1.
    4. Pratt (1964)
    5. Ross (1981)
  - Assignment 1, due at my office 11/10
- (11/9) Mean-Variance Portfolio Choice and the CAPM
  - Readings
    1. Gollier, Chapters 4 and 5 and/or
    2. Huang and Litzenberger, Chapters 3 and 4, and/or
    3. Ingersoll, Chapters 3 and 4.
    4. Sharpe (1964)
    5. Black (1972)
    6. Gibbons, Ross, and Shanken (1989)
    7. Dybvig and Ingersoll (1982)
  - Assignment 2, due in class 11/17
  - Presentations in class 11/17:
    1. Fama and MacBeth (1973)
    2. Huberman and Kandel (1987)
    3. Fama and French (1992)
- (11/17) Equilibrium and the Lack of Arbitrage
  - Readings
    1. Harrison and Kreps (1979)
    2. Ross (1976)
    3. Dybvig and Ross (1985)
  - Assignment 3, due in class 12/1
  - Presentations in class 12/1:
    1. Hansen and Jagannathan (1991)
    2. Chen, Roll, and Ross (1986)
- (12/1) Dynamic Portfolio Choice and Pricing
  - Readings
    1. Ingersoll, Chapter 11 and 13
    2. Merton (1969)
    3. Merton (1971)
    4. Samuelson (1969)

- Assignment 4, due in class 12/8

- (12/8) Consumption Models
  - Readings
    1. Lucas (1978)
    2. Breeden (1979)
    3. Epstein and Zin (1989)
  - Assignment 5, due in class 12/15
  - Presentations, in class 12/15
    1. Hansen and Singleton (1982)
    2. Campbell and Cochrane (1999)
    3. Bansal and Yaron (2004)

- (12/15) The Intertemporal Capital Asset Pricing Model
  - Readings
    1. Ingersoll, Chapter 13
    2. Merton (1973)
    3. Campbell (1996)

6 Articles

Bansal, R. and A. Yaron, 2004, Risks for the long run: A potential resolution of asset pricing puzzles," *Journal of Finance* 59, 1481–1509.

Black, F., 1972, Capital market equilibrium with restricted borrowing, *Journal of Business* 45 444–455.

Breeden, D., 1979, An intertemporal asset pricing model with stochastic consumption and investment opportunities, *Journal of Financial Economics* 7, 265–296.

Campbell, J.Y., 1996, Understanding risk and return, *Journal of Political Economy* 104, 298-345.

Campbell, J.Y. and J. Cochrane, 1999, By force of habit: A consumption-based explanation of aggregate stock market behavior, *Journal of Political Economy* 107, 205-251.

Chen, N., R. Roll, and S. Ross, 1986, Economic forces and the stock market, *Journal of Business* 59, 383-403.

Cox, J., and C. Huang, 1989, Optimal consumption and portfolio policies when asset prices follow a diffusion process, *Journal of Economic Theory* 39, 33-83.

Dybvig, P. and J. Ingersoll, 1982, Mean-variance theory in complete markets, *Journal of Business* 55, 233-251.

Dybvig, P. and S. Ross, 1985, Yes, the APT is testable, *Journal of Finance* 40 1173-1188.

Epstein, L., and S. Zin, 1989, Substitution, risk aversion and the temporal behavior of consumption and asset returns: A theoretical framework *Econometrica* 57, 937–969.

Fama, E. and J. MacBeth, 1973, Risk, return, and equilibrium: empirical tests, *Journal of Political Economy* 81, 607–636.

Fama, E. and K. French, 1992, The cross-section of expected returns, *Journal of Finance* 47 427-465.

Gibbons, M., S.A. Ross, and J. Shanken, 1989, A test of the efficiency of a given portfolio, *Econometrica* 57, 1121–1152.

Hansen, L.P. and R. Jagannathan, 1991, Implications of security market data for models of dynamic economies, *Journal of Political Economy* 99, 225–262.

Hansen, L.P., and K. Singleton, 1982, Generalized instrumental variables estimation of nonlinear rational expectations models, *Econometrica* 50, 1269–1286.

Harrison, J.M., and D. Kreps, 1979, Martingales and arbitrage in multiperiod securities markets, *Journal of Economic Theory* 20, 381–408.

Huberman, G., and E. Kandel, 1987, Mean-variance spanning, *Journal of Finance* 42, 873–888.

Jagannathan, R., and Z. Wang, 2002, Empirical evaluation of asset pricing models: A comparison of the SDF and beta methods, *Journal of Finance* 57, 2337-2367.

Lucas, R., 1978, Asset prices in an exchange economy, *Econometrica* 46, 1429–1445.

Mehra, R. and E. Prescott, 1985, The equity premium puzzle, *Journal of Monetary Economics* 15, 145-161.

Merton, R., 1969, Lifetime portfolio selection under uncertainty: The continuous time case, *Review of Economics and Statistics* 51, 247-257.

Merton, R., 1971, Optimum Consumption and Portfolio Rules in a continuous time model, *Journal of Economic Theory* 3, 373-413.

Merton, R., 1973, An intertemporal capital asset pricing model, *Econometrica* 41, 867-887.

Pratt, J.W., 1964, Risk aversion in the small and the large, *Econometrica* 32, 122–136.

Ross, S. A., 1976, The arbitrage theory of capital asset pricing, *Journal of Economic Theory* 13, 341-360.

Ross, S. A., 1981, Some stronger measures of risk aversion in the small and the large with applications, *Econometrica* 49 621–638.

Samuelson, P., 1969, Lifetime portfolio selection by dynamic stochastic programming, *Review of Economics and Statistics* 51, 239-246.

Sharpe, W., 1964, Capital asset prices: A theory of market equilibrium under conditions of risk, *Journal of Finance*, 19, 425–442.