Useful textbooks for the course are


June 19


   The purpose of this class is to identify the Efficient Market Hypothesis as a central paradigm of empirical finance. The relationship between this concept and related Random Walk Hypothesis. Introduce the importance of sample design, and how sample selection bias can lead to false inferences in empirical study of the EMH.

   Suggested Readings
   - CLM Chapters 1,2
   - Fama 1976 Chapters 1, 5
   - Cowles 1933
   - Fama 1965
   - Brown, Goetzmann and Ross 1995

2. The Efficient Markets Hypothesis - Generalized Method of Moments

   We discuss recent advances in the empirical analysis of the Random Walk Hypothesis. Show that these variance ratio tests are essentially tests of the overidentification restrictions implied by this hypothesis, and use this observation to provide a simple introduction and motivation for Hansen's Generalized Method of Moments.

   Suggested Readings
   - JC Chapter 10,11
   - Hansen & Singleton 1982, 1983
   - Lo & MacKinlay 1988
   - Richardson & Smith 1991
3. Semistrong tests -- Event Studies

Show how GMM in the context of semistrong tests of the EMH relates to the Event Study paradigm. Analysis of the Event Study paradigm in the context of the classic paper by Fama Fisher Jensen and Roll. Are event studies applied data analysis or studies of information equilibria? We discuss the empirical issues of event studies. Identify the central role of interpretation in the context of event studies; the choice of statistical methodology is of a second order of importance. Emphasize the central importance of Acharya and Prabhala contribution in casting event studies into a more general information economics perspective and providing a practical resolution of the endemic sample selection bias issue.

Suggested Readings

CLM Chapter 4
Acharya 1988
Ball & Brown 1908
Brown & Warner 1980, 1985
Fama et al 1969
Ohlson & Patell 1979
Prabhala 1997

4. Asset Pricing and Mean Variance Efficiency

The empirical implications of multiperiod equilibrium asset pricing models. Consumption based asset pricing models. Important moment restrictions that arise from this analysis. Relationship to EMH paradigm and tests of mean variance efficiency.

Suggested Readings

JC Chapters 1-6
CLM Chapter 6,8
Hansen & Jagannathan 1991
Gibbons et al., 1989

5. Current Approaches to Performance Measurement

The purpose of performance measurement systems is to measure the extent to which portfolio managers add value by virtue of their access to information superior to that available to the average market participant. We discuss the relevance of different proposed measures of investment performance relative to this criterion, and practical implementation issues. There is an interesting
relationship between performance measurement metrics and the determination of appropriate style benchmarks.

Suggested Readings

Brown et al 2005
Chen & Knez, 1996
Goetzmann et al 2004
Ferson & Schadt, 1996
Jensen, 1998
Sharpe, William F, 1966, 1992
see also readings found at http://pages.stern.nyu.edu/~sbrown/performance/bibliography.html

6. Ex-post conditioning issues
A careful analysis of the ex-post conditioning issues that arise in performance measurement and other contexts of empirical finance.

Suggested Readings

Brown, Goetzmann and Ross 1995
Brown, Goetzmann, Ibbotson and Ross 1992
Elton, Gruber, Das and Hlavka 1993
REFERENCES
Acharya, S., 1988, A generalized econometric model and tests of a signalling hypothesis with
two discrete signals Journal of Finance 43(2), 413-429.

of Accounting Research 6, 159-178

Economics 8, 205-258

of Financial Economics 14, 3-31

Brown, S., W. Goetzmann, R. Ibbotson and S. Ross, 1992, Survivorship Bias in


Brown, Stephen J. and William N. Goetzmann, 2003 Hedge Funds with Style. Journal of

Brown, Stephen J., Gallagher, David R., Steenbeek, Onno W. and Swan, Peter Lawrence,
"Double or Nothing: Patterns of Equity Fund Holdings and Transactions" (February 2, 2005).
http://ssrn.com/abstract=555423

Review of Financial Studies 9, 551-556.

Cowles, A., 1933 Can stock market forecasters forecast? Econometrica 1 309-325

Elton, E., M. Gruber, S. Das and M. Hlavka, 1993, Efficiency with costly information: A
reinterpretation of evidence from managed portfolios Review of Financial Studies 6, 1-22

Fama, E., 1976 Foundations of Finance (Basic Books, New York)

Fama, E., et al.,1969 The adjustment of stock prices to new information International

Fama, E., 1965 The behavior of stock market prices Journal of Business 38, 34-105


Ohlson, J. and J. Patell, 1979 Residual (API) analysis and the private value of information. *Journal of Accounting Research* 17,504-549


