Syllabus PhD Seminar in Asset Pricing Theory
(Preliminary)
Fall Semester 2007-2008

September 4, 2007

1 Instructor

Professor Anthony Lynch
Office: KMEC 9-97
Phone: (212) 998-0350
Fax: (212) 995-4256
Email: alynch@stern.nyu.edu
Web page: http://www.stern.nyu.edu/~alyynch
Office Hours: T 5-6pm, W 9-9:30pm, or by appointment.

Professor Stijn Van Nieuwerburgh
Office: KMEC 9-80
Phone: (212) 998-0673
Fax: (212) 995-4256
Email: svnieuwe@stern.nyu.edu
Web page: http://www.stern.nyu.edu/~svnieuwe
Office Hours: M 4-5.30 pm, or by appointment.

2 Class Time

The class meets once per week for 15 weeks.
The class is on Tuesday from 2-5pm, with a 15 minute break around 3pm.
The first class is on Tuesday 09/04. This is a one-hour organizational meeting.
There is no class on Tuesday 11/20. The last class is on Tuesday 12/18.
The venue is KMEC, Conference Room 9-191.

3 Course Content

The class is a rigorous, quantitative, seminar course in asset pricing theory. Each class will familiarize you with the key insights in a current topic of research in asset pricing, and will show you recent work in the area. We have chosen to cover a broad range of active research so as to give you an overview of what people are working on. While you may not like all topics, the hope is that you will like some.

Prerequisites This course is for second and third-year Ph.D. students interested in financial economics. Exceptions are granted on an individual basis. Prior course work in macroeconomics, microeconomics, mathematics, and statistics at the first-year PhD level are assumed. Prior exposure to theoretical or empirical asset pricing (first year finance PhD course work) is a plus, but not a must.

4 Goals and Deliverables

Since this is a seminar class, students will present the papers. Each week there will be 3 papers. Typically, one (or two) of these papers will be classics in the literature and the other two (or one) will be more recent papers that push these classic ideas in a new and, in our opinion, exciting direction. Each paper will be presented by one student, and a group discussion will follow, in which all are expected to participate.

The class will help you develop several critical attributes to a successful thesis, and a successful academic career more generally:

- Structured thinking: the ability to summarize the essential ingredients of a paper in a concise way, and to put them in perspective (organize them in your mental library of ideas)

- Critical thinking: the ability to ask tough questions about the papers you read, to think about the desirability choices the authors made, and to isolate key strengths and weaknesses of papers

- Creativity: the ability to take an existing idea and explore how it can be pushed further, the ability to connect seemingly divorced ideas in order to create something truly new

- Presentation skills: the ability to expose a set of ideas in a clear, concise, and well-organized way
In order to help you develop these skills, there will be three deliverables for this class.

1. **Assignments** Each week, there will be an assignment that needs to be handed in at the beginning of class. Each assignment has the same basic structure. The first part of the assignment is a summary of the 3 papers assigned for that week.

   - This summary must be a minimum of 1 page and a maximum of 2 pages, 11 pt font, 1.5 point line spacing, 1 inch margins top, bottom and sides.
   - We are looking for an intelligent summary that adds value beyond the abstracts of the papers.
   - One way to add value is to draw connections in the summary between the three papers (similarities and differences).
   - Another way to add value is to formulate in your own words, and in a concise way the key insights of the papers.

The second part of the assignment is a critical assessment and directions for future research.

   - This assessment must be a minimum of 1 page and a maximum of 2 pages, 11 pt font, 1.5 point line spacing, 1 inch margins top, bottom and sides.
   - We are looking for a critical judgement of one or more of the papers. You can use the similarities and differences from your summary to discuss strengths and weaknesses of 1 or more of the papers.
   - Think of yourself as the referee. Just like in a good referee report, try to make a few important points (highlight key strengths or weaknesses), rather than making a large number of small comments.
   - In addition, we are looking for your evaluation of how this literature should proceed: If you were to write the next paper in this area, based on the three papers you read (and everything else you have learned), what would it be.
   - In the part on future directions, try to be bold without being too vague. If you were to pursue this topic as a dissertation topic, what kind of question would be really worth thinking about?

Thus, the total length of the assignment is between 2 and 4 pages. There are a total of 14 assignments. You have two and only two free-bees that you may use for two emergencies (illness, urgent travel, ...). You will be evaluated on the basis of your best 12 assignments. No late assignments will be accepted. If your assignment is late, it will automatically count against your two free-bees. Obviously, this work is strictly individual (See honor code section below). It completely defeats the purpose to copy ideas from others, or to simply copy from the papers. You will be evaluated only on the value that you add.
2. **Presentation**  Every class, there are 3 paper presentations, which will be assigned to students in the first week of class. The presentation should include both the setup and results of the paper, but also a discussion of these results.

- The presentation is 35 minutes.
- Use beamer, a latex-based slides package.
- Make the introduction short.
- Spend a good amount of time on the model setup and main results.
- Finish with an evaluation of the paper which should take about 15 minutes.
- Practise your talk aloud at home, and time it. Make adjustments!

Think of this as the NBER Asset Pricing conference. Time is kept strictly. You only have one chance to get it right. The more you practise the more you can say in the time allotted.

3. **Participation**  Following the 35 minute presentation, there will be a general discussion about the paper. Since you have read the paper beforehand, and have prepared this discussion beforehand, you are expected to voice your opinion.

5  **Assessment**

**Grades**  Grades will be based on assignments (60%), in-class presentations (20%), and in-class participation (20%).

**Honor Code**  You are responsible for maintaining Stern’s Honor Code which mandates zero tolerance for cheating and plagiarism. Violations of the honor code will be prosecuted with a minimum penalty of failure for the course, as required by code of conduct rules. If you become aware of any violations of the honor code you must take whatever steps are necessary to stop the violators. Per request of the dean, you must include a signed statement at the top of each problem set and exam, indicating that you adhere to the honor code. The statement is: ‘I pledge my honor that I have not violated the Stern Honor Code in the completion of this exam/problem set.’

6  **Detailed Class Schedule**

Below is a detailed schedule for each class. Required readings are indicated as RR, suggested readings as SR. Suggested reading may come in handy in preparation of your assignment, or later during dissertation work. It is important to read the required reading before coming to class.
• Sept 4. **Organizational meeting**
  This will be a one-hour meeting where we give an overview of the course, explain the course requirements, and assign papers to each student for presentation.

• Sept 11. **Dynamic portfolio choice**
  RR (in order of presentation):
  1. Campbell and Viceira (1999)
  3. Xia (2001)

• Sept 18. **Asset pricing methodology: the Campbell and the no-arbitrage frameworks**
  RR (in order of presentation):
  2. Lustig and Van Nieuwerburgh (2007b)
• Sept 25. **Return predictability and the present-value model**

RR (in order of presentation):

1. Campbell and Shiller (1988a)


• Oct 2. **The long-run risk model**

RR (in order of presentation):


• Oct 9. **The habit model**

RR (in order of presentation):


• Oct 16. **Asset pricing in business cycle models**

RR (in order of presentation):


• Oct 23. **Incomplete markets models and un-diversifiable labor income risk**

RR (in order of presentation):

1. Mankiw (1986)
2. Constantinides and Duffie (1996)


• Oct 30. **Limited participation**


• Nov 6. **Limited commitment**

3. Lustig and Van Nieuwerburgh (2007a)

• Nov 13. **Transaction costs and liquidity risk**


• Nov 27. **Solving heterogeneous-agent models**

2. Gomes and Michaelides (2007)
3. Favilukis (2007)


• Dec 4. **Limits to arbitrage**

1. Shleifer and Vishny (1997)


• Dec 11. **Bubbles and differences of opinion**


Dec 18. Information and asset pricing

1. Admati (1985)


7 Textbooks

There are no textbooks for this class, but the following are good general background textbooks for this class and for any asset pricing library:

References


