

hw7 (fm-mcbeth)

Do a basic Fama-Macbeth type of regression predicting cross-sectional stock returns with independent variables: firm-marketcap, price-normalized accruals, the earnings-price ratio, and 1/price. You can run this based on the annual data sets you created earlier. (If annual, you want to predict year t calendar stock returns with year $t-2$ variables, because a firm could end its fiscal year in May and report results in October.) The minimum requirement is Fama-Macbeth overall coefficients from one predictive set of (four) independent variables. (Each Fama-Macbeth coefficient is the average over the cross-sectional coefficients.) Extra Credit: are the differences between being scrupulous in knowing the variables (e.g., a 6-month lag post earnings disclosure), and one where you are "casual" (i.e., wrong)? Extra Credit: Any other variables that predict future calendar year returns reliably? Note: This assignment has modest overlap with one in Lars Lochstoer's course.