Lecture 0: Class Setup

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Intro

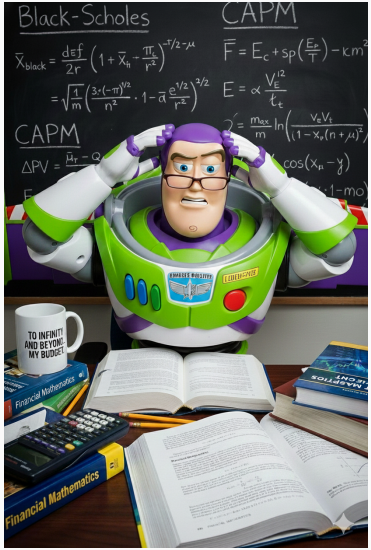
- Welcome to Finance 1!
- Classes: Mondays and Wednesdays, 15:30 - 17:30;
- Office hours: Fridays, 9:00 - 10:00, or by appointment;
- Class github repository: https://github.com/epge-classes/finance-1-2026;
- This is the first class of a *sequence*;
- Finance 2 next quarter, from Felipe Iachan;
- If you ever want to be advised by me, you *have* to take both classes;

What I *think* we will cover

This is a **foundational** course in Asset Pricing. Topics include:

- No-arbitrage and the stochastic discount factor;
- Linear factor models and beta-representation of asset returns;
- Consumption-based asset pricing and the Equity Premium Puzzle;
- Habit models, long-runs risk models, and rare disasters;
- A bit of option pricing and non-parametric recovery of the SDF;
- Interest rate models and their term structure;
- A bit of Machine Learning in Asset Pricing;

You are pioneers!



- This is my first time teaching this class;
- I have no idea of our own pace;
- I have no idea of what you like and what you don't;
- You **need** to give me **ongoing feedback**;
- We will adapt pace and the content as we go;

Useful info

- Attendance is not mandatory, but highly recommended;
- Slides will be available before class on Github;
- The material will be scattered across books and papers – I will cite everything;
- I will **not** teach on Jan 21st and on Jan 26th (away for a conference). Good dates for make-up classes?
- If you decide to work in Asset Pricing, taking a class on Stochastic Calculus is highly recommended;
- This class *can* feel like a first-year class: we will use a lot of Micro and Macro tools;
- *My own view*: data with no theory is a collection of fancy plots; theory with no data has no discipline.
- There are no exams, and no problem sets – more on evaluation later;

Evaluation

Research Proposal (50%)

- Individual assignment;
- 5-10 pages;
- Research question + motivation + contribution + feasibility;
- Check-in: two-paragraph summary by end of week with lecture 10;
- You should start reading what's published in top journals *now*;
- Due date: TBD

Paper Presentation (35%)

- Present one paper related to your proposal;
- Graded on delivery (50%), slides (35%), Q&A (15%);
- Goal: make everyone understand why your proposal matters;
- Check-in: propose paper by end of week with lecture 10;

Peer Review (15%)

- Review one classmate's proposal, 2 pages maximum;
- Due one week after proposal deadline

Useful Books

Books: (in no particular order)

- Cochrane, J. H. (2005). *Asset Pricing* (Revised Edition). Princeton University Press.
- Campbell, J. Y. (2017). *A Course in Asset Pricing*. Princeton University Press.
- Campbell, J. Y., Lo, A. W., & MacKinlay, A. C. (1997). *The Econometrics of Financial Markets*. Princeton University Press.
- Back, K. (2017). *Asset Pricing and Portfolio Choice Theory*. Oxford University Press.
- Duffie, D. (2001). *Dynamic Asset Pricing Theory*. Princeton University Press.
- Tuckman, B., & Serrat, A. (2022). *Fixed Income Securities: Tools for Today's Markets*. Wiley.
- Singleton, K. J. (2006). *Empirical Dynamic Asset Pricing: Model Specification and Econometric Assessment*. Princeton University Press.
- Veronesi, P. (2010). *Fixed Income Securities*. Wiley.
- Hull, J. C. (2021). *Options, Futures, and Other Derivatives*. Pearson.

Questions?