

FINM 35000 Problem Set 4

Instructor: Joanna Harris, TA: Lisheng Su

Due November 17, 2023, 6PM

Please submit one copy per group of your responses to section 1. The submission should include a PDF or Word document with the written results, tables and figures and a separate code file (in a programming language of your choosing), including all data files necessary to run the code. Please use a different font color for responses typed by each group member. Please make sure to write the names of all group members at the top of the writeup (the font color of the names should match each group member's responses). **Do not use ChatGPT or any other AI tools to complete any part of this assignment. All responses must be written in your own words.** Section 2 is individual and optional. If you would like to submit a response to Section 2, please do so in a separate submission.

Supplementary files: the files you will need to complete this assignment can be found at <https://www.dropbox.com/scl/fo/u5okcw8clliln64uf5tca/h?rlkey=kuv33exhq8kvb1znng1qa5v0&dl=0>.

1 Replication of Cosemans and Frehen (2021) (100 points)

Note: for questions 2-3, it is possible you will not obtain the exact numbers in the paper, which is okay as long as you are able to describe the ways in which you might have deviated from the authors (in question 4).

1. In your own words, describe what the authors mean by “salience theory” and how it affects investor’s portfolio choice decisions.
2. Following Section 3 of the paper, download the relevant variables from CRSP and Compustat (both available through WRDS). Use this data to replicated Table 2.
3. From Tables 3-10, choose **two** other tables and replicate them.
4. If the numbers you obtain in questions 2 and 3 deviate from those in the paper, why do you think this is? What parts of the data construction and replication were difficult? Was there any additional information the authors could have given you to make this process simpler?
5. In your view, what are the key takeaways of this paper? How did the results in the tables you replicated contribute to the paper as a whole?

2 Reading Response (15 points)

Optional for extra credit. Must be completed individually.

Read De Marco et al. (2022) and answer the following questions.

1. What question is the paper trying to answer? In what ways does the analysis in the paper differ from previously documented facts about home bias?
2. What do you like about the paper?
3. What questions do you have after reading the paper?

3 References

References

Cosemans, M. and Frehen, R. (2021). Salience theory and stock prices: Empirical evidence. *Journal of Financial Economics*, 140(2):460–483.

De Marco, F., Macchiavelli, M., and Valchev, R. (2022). Beyond home bias: International portfolio holdings and information heterogeneity. *The Review of Financial Studies*, 35(9):4387–4422.