

Course Outline 2017
Finance 705: Empirical Finance (15 POINTS)
Semester 1 (1173)

Goal of the Course

This course examines the theory and application of modern research methods in finance. It has two broad objectives. The first objective is to provide students with a basic framework of how to conduct research in finance and how to avoid some of the pitfalls of research in finance. The second objective is to help you in finding a potential topic for your research project and to develop this into a rigorous research proposal. These objectives are achieved through exposing students to a range of contemporary research issues in finance.

Learning Outcomes

At the successful completion of the course, students should be able to:

1. Formulate a well-motivated research question.
2. Develop research hypotheses.
3. Select appropriate research methods to test hypotheses.
4. Write a research proposal.
5. Draw sensible inferences from results.

In addition to developing your research skills in finance, Finance 705 aims to develop generic skills as required by relevant professional bodies and the University of Auckland Business School (UABS). At the end of the course, you should be able to:

6. Demonstrate verbal, written, and interpersonal communication skills, at a level where you can communicate knowledge clearly and succinctly.

Learning Resources

All readings and other learning resources can be obtained through the library catalogue, scholar.google.com, ssrn.com or electronic databases at UABS.

Learning and Teaching

The course consists of 3-hour lectures and seminars. In the seminars, you will present your research topic, your research proposal, and a pre-assigned topic. Questions are encouraged both during and after lectures and seminars. All students are expected to come to class prepared and willing to engage in active discussion. Active class participation is an important part of Finance 705, and will be a component in the calculation of the final mark.

Since each of us brings different experiences and backgrounds to class, and has different ways of approaching the issues we will be addressing in the course, one of the objectives of class

participation is to learn from one another. You will not be penalised for subscribing to a different way of thinking as long as you can logically back up your points. The only “bad” outcome is a lack of participation.

Teaching Staff

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Location and Time

Location and time:

Room 205, OGGB, 2pm to 5pm Monday
Room 307, OGGB 9am to 12pm Wednesday

Assessment

The total course mark used to determine your overall grade is calculated as follows:

	MARKS
Assignments (15 + 15)	30
Participation	10
Presentation (10 + 5 + 5)	20
Research Proposal	40
Total Course Mark	100

Participation

You will earn marks for participation if you come to class having studied the reading material assigned for the day and if you participate in class discussion by offering appropriate/relevant comments and seeking clarification of important issues.

Out of respect for all participants in Fin705, mobiles need to be switched off during class and laptops/tablets are not allowed!

Participants

Accounting students are welcome to attend Fin705, but a reasonable level of quantitative skills is expected. Students concurrently working on a Research Thesis (i.e. in the same semester) are also welcome, but are expected to develop a new research proposal on a different topic.

Presentations

Each of you will prepare a short presentation on a potential research topic, you will also do a group presentation on an assigned article, and you will each present your research proposal. During and following presentations, it is expected that the class will discuss research issues that arise from your presentation. Presentations must provide enough background information to facilitate this discussion.

Course Structure

This course is spread over 10 weekly research seminars.

Week 3: (20 March) Introduction and Event Studies

Henk Berkman

- Kothari, S.P. and Warner, Jerold B., The econometrics of event studies, 2004. Available at SSRN: http://papers.ssrn.com/sol3/papers.cfm?abstract_id=608601
- MacKinlay, A. C., 1997, Event studies in economics and finance. *Journal of economic literature*, 35(1), 13-39.

Week 4: (27 March) Long Term Event Studies

Henk Berkman

- Fama E.F., 1998, Market efficiency, long-term returns, and behavioral finance, *Journal of Financial Economics* 49, 283-306.
- Loughran, T., Ritter, J., 1995. The new issues puzzle. *Journal of Finance* 50, 23-51.
- Mitchell, Mark L., and Erik Stafford (2000), Managerial decisions and long-term stock price performance, *Journal of Business* 73, 287-329.

Hand Out Assignment 1

Week 5: (3 April) More on Event Studies

Henk Berkman

- Berkman, Henk and Truong, Cameron, 2009, Event Day 0? After-hours Earnings Announcements, *Journal of Accounting Research* 47, 71–103.
- Berkman, Henk, Rebel A. Cole, and Lawrence J. Fu. "Political connections and minority-shareholder protection: Evidence from securities-market regulation in China." *Journal of Financial and Quantitative Analysis* 45.06 (2011): 1391-1417.

Week 6: (10 April) Research Topics

Henk Berkman

Week 7: (1 May) Regression Models Dimitri Margaritis

- Recommended reading: Chapters 2 - 4 of "*Introductory econometrics for finance*" by Chris Brooks (Cambridge University Press).

Week 8: (8 May) Time Series Econometrics Dimitri Margaritis

- Recommended reading: Chapters 7 - 8 of "*Introductory econometrics for finance*" by Chris Brooks (Cambridge University Press).

Hand In Assignment 1
Hand Out Assignment 2

Week 9: (15 May) Selected Papers for Group Presentations Dimitri Margaritis

- Monica Billio, Mila Getmansky, Andrew W. Lo and Lorian Pelizzon, 2012, Econometric Measures of Connectedness and Systemic Risk in the Finance and Insurance Sectors, *Journal of Financial Economics* 104, 535-559.
- M. Wintoki, J. Linck, and J. Netter, 2010, Endogeneity and the Dynamics of Corporate Governance. Forthcoming in *Journal of Financial Economics* 105, 581-606.
- D. Margaritis and M. Psillaki, 2010, Capital Structure, Equity Ownership and Firm Performance, *Journal of Banking & Finance* 34, 621-632.
- M.-H. Liu, D. Margaritis and A. Tourani-Rad, 2011, Asymmetric Information and Price Competition in Small Business Lending, *Journal of Banking & Finance* 35 (9), 2189-2196.
- Rainer Jankowitsch, Florian Nagler, and Marti G. Subrahmanyam, 2014, The determinants of recovery rates in the US corporate bond market, *Journal of Financial Economics* 114, 155-177.

Week 10: (22 May) Selected Papers for Group Presentations Dimitri Margaritis

- Wolfgang Lahmann, 2012, Contagion between Sovereign and Bank Credit Spreads – A Global Analysis of Interdependencies between Sovereign and Bank CDS Spreads. Working Paper. Electronic copy available at: <http://ssrn.com/abstract=1994866>
- Simon Gilchrist and Egon Zakrajsek, 2012, "Credit Spreads and Business Cycle Fluctuations," *American Economic Review*, 102(4), 1692-1720.
- A. Bonfiglioli and C.A. Favero, 2005, Explaining Co-movements between Stock Markets: The Case of US and Germany, *Journal of International Money and Finance*, 24, 1299-1316.
- Liu, X., Margaritis, D., Wang, P., 2012, "Stock market volatility and equity returns: Evidence from a two-state Markov-switching model with regressors", *Journal of Empirical Finance*, 19, 483-496.
- Wayne Ferson, Suresh Nallareddy, Biqin Xie, 2013, 'The "out of sample" performance of long run risk models', *Journal of Financial Economics*, 107(3) 537-556.

Week 11: (29 May) Research Proposals

Week 12: (5 June) Research Proposals

Hand In Assignment 2