# Empirical Asset Pricing

## USI - Spring 2016

### Reading List

This reading list is provisional and will be updated.

The textbooks are:

- John H. Cochrane, *Asset Pricing* (revised edition), Princeton University Press, Princeton 2006. In the reading list I will refer to this book as **Cochrane**
- John Y. Campbell, Andrew W. Lo, and A. Craig MacKinlay, *The Econometrics of Financial Markets*, Princeton University Press, Princeton, 1997. I will refer to this book as **CLM**
- Huang, C.F., and R.H. Litzenberger (1988), *Foundations for Financial Economics*, Prentice-Hall. I will refer to this book as **HL**

All the readings in this list are required.
When I denote a reading by *, I will assume knowledge of the intuition and main results (which you can often, but not always, draw from the Introduction and Conclusion, if it is an article).
The other readings are the most important ones. You will need to have a very good grasp of the entire content.

*Introduction: Efficient Market Hypothesis*

CLM, chapter 1

Fama, Eugene, 1991, Efficient capital markets: II, *Journal of Finance* 46, 1575-1617

* Fama, Eugene, 2010, My life in finance, working paper, University of Chicago.

* Francesco Franzoni and José M. Marín, 2006, Pension Plan Funding and Stock Market Efficiency, Journal of Finance, April, pp. 921-956

*Testing Asset Pricing Models: Overview*

Cochrane, chapters 7, 12, 14, 15, 16

HL, chapter 10

* CLM chapters 6 and 7

*Cross-sectional anomalies: the debate*

Fama, Eugene and Kenneth French, 1992, The cross-section of expected stock returns, *Journal of Finance* 47, 427-465

* Berk, Jonathan, 1995, A critique of size-related anomalies, Review of Financial Studies 8, 275-286

Fama, Eugene and Kenneth French, 1993, Common risk factors in the returns on stocks and bonds, *Journal of Financial Economics* 33, 3-56

* Lakonishok, Josef, Andrei Shleifer, and Robert Vishny, 1994, Contrarian investment, extrapolation, and risk, *Journal of Finance* 49, 1541-1578.

Daniel, Kent and Sheridan Titman, 1997, Evidence on the characteristics of cross-sectional variation in stock returns, *Journal of Finance* 52, 1-33

Cochrane, section 20.2

CLM section 6.6

* Heaton, John and Deborah Lucas, 2000, Portfolio Choice and Asset Prices: The Importance of Entrepreneurial Risk, *Journal of Finance 55(3),* 1163-1198

* Fama, Eugene and Kenneth French, 1996, Multifactor explanations of asset pricing anomalies, *Journal of Finance* 51, 55-84

Jegadeesh, Narasimhan and Sheridan Titman, 1993, Returns to buying winners and selling losers: Implications for stock market efficiency, *Journal of Finance* 48, 65-91

* Jegadeesh, N., Titman, S., 2001, Profitability of momentum strategies: an evaluation of alternative explanations. *Journal of Finance* 56, 699-720

* Korajczyk, Ronnie Sadka, 2004, Are Momentum Profits Robust to Trading Costs?, *Journal of Finance* 59, 1039-1082

* Chan, Louis, Narasimhan Jegadeesh, and Josef Lakonishok, 1996, Momentum strategies, *Journal of Finance* 51, 1681-1713

* Bernard, Victor and Jacob Thomas, 1990, Evidence that stock prices do not fully reflect the implications of current earnings for future earnings, *Journal of Accounting and Economics* 13, 305-340

* Hong, Harrison and Jeremy Stein, 1999, A Unified Theory of Underreaction, Momentum Trading, and Overreaction in Asset Markets, *Journal of Finance* 54, 2143-2184

* Moskowitz, Tobias and Mark Grinblatt, 1999, Do Industries Explain Momentum?, *Journal of Finance* 54, 1249-1290

Ang, Andrew, Bob Hodrick, Yuhang Xing, and Xiaoyan Zhang, 2009, "High Idiosyncratic Volatility and Low Returns: International and Further U.S. Evidence" Journal of Financial Economics, 91, 1, 1-23

Stambaugh RF, Yu J, Yuan Y., 2015, Arbitrage asymmetry and the idiosyncratic volatility puzzle. Journal of Finance 70(5), 1903-48.

* Frazzini, Andrea and Lasse Heje Pedersen, 2014, "Betting Against Beta,". Journal of Financial Economics

* Fama, Eugene F., and Kenneth R. French, 2015, "A five-factor asset pricing model." Journal of Financial Economics 116.1, 1-22.

* Fama, Eugene F., and Kenneth R. French, 2016, "Dissecting anomalies with a five-factor model." Review of Financial Studies 29.1, 69-103.

* McLean, R. David, and Jeffrey Pontiff, 2016, Does academic research destroy stock return predictability? Journal of Finance 71.1: 5-32.

*<u>Conditional asset pricing: tests and critiques</u>*

Jagannathan, Ravi and Zhenyu Wang, 1996, The conditional CAPM and the cross-section of stock returns. *Journal of Finance* 51, 3-53

Lettau, Martin and Sydney Ludvigson, 2001, Resurrecting the (C)CAPM: A cross-sectional test when risk premia are time varying, *Journal of Political Economy* 109, 1238 – 1287

Cochrane, chapters 8, 9, and 13

Lewellen, J., and S. Nagel, 2006, The Conditional CAPM Does Not Explain Asset Pricing Anomalies, *Journal of Financial Economics,* November

*<u>Liquidity and liquidity risk in asset pricing</u>*

Amihud, Yakov, Haim Mendelson, and Lasse H. Pedersen, 2005, Liquidity and asset prices, *Foundations and Trends in Finance* 1(4), 269–364.

Pastor, Lubos, and Robert F. Stambaugh, 2003, Liquidity risk and expected stock returns, *Journal of Political Economy* 111, 642–685.

*Acharya, Viral V., and Lasse H. Pedersen, 2005, Asset pricing with liquidity risk, *Journal of Financial Economics* 77, 375–410.

*Sadka, Ronnie, 2006, Momentum and post-earnings-announcement drift anomalies: The role of liquidity risk, *Journal of Financial Economics* 80, 309–349.

*Bekaert, Geert, Campbell Harvey, and Christian Lundblad, 2007, Liquidity and expected returns: Lessons from emerging markets, *Review of Financial Studies* 20, 1783–1831.

*Franzoni, Francesco, Eric Nowak, and Ludovic Phalippou, 2012, "Private equity performance and liquidity risk", *Journal of Finance* 67(6), 2341-2373

*<u>Limits to arbitrage</u>*

<u>Theory</u>

Gromb, D., and D. Vayanos, 2010, Limits of Arbitrage: The State of the Theory, Annual Review of Financial Economics 2, 251–275.

*Shleifer, Andrei, and Robert W. Vishny 1997, The Limits of Arbitrage, Journal of Finance 52(1), 35-55.

*Shleifer, Andrei and Robert Vishny, 1992, Liquidation values and debt capacity: a market equilibrium approach, Journal of Finance, 47, 343–366.

Shleifer, Andrei, and Robert W. Vishny, 2011, Fire Sales in Finance and Macroeconomics, Journal of Economic Perspectives 25(1), 29–48.

*Gromb, Denis, and Dimitri Vayanos, 2002, Equilibrium and Welfare in Markets with Financially Constrained Arbitrageurs, Journal of Financial Economics 66, 361-407.

*Vayanos, Dimitri, 2004, Flight to Quality, Flight to Liquidity, and the Pricing of Risk, Working Paper, London School of Economics.

*Brunnermeier, Markus K. and Dilip Abreu, 2002, Synchronization Risk and Delayed Arbitrage, Journal of Financial Economics, 66, 341-360.

Brunnermeier, Markus K., and Lasse H. Pedersen, 2009, Market Liquidity and Funding Liquidity, Review of Financial Studies 22, 2201-2238.

*Duffie Darrell, 2010, Presidential Address: Asset Price Dynamics with Slow-Moving Capital, Journal of Finance 65(4), 1236-1267.

*Vayanos, Dimitri, and Paul Woolley, 2013, An institutional theory of momentum and reversal *Review of Financial Studies* 26 (5), 1087–1145.

<u>Empirical Evidence</u>

Mitchell, Mark, Todd Pulvino, and Erik Stafford, 2002, Limited arbitrage in equity markets, *The Journal of Finance* 57.2, 551-584.

*Mitchell M, L. Pedersen, and T. Pulvino, 2007, Slow moving capital, American Economic Review Papers and Proceedings, 97, pp. 215–220

Brunnermeier, Markus K., and Stefan Nagel, 2004, Hedge Funds and the Technology Bubble, Journal of Finance 59(5), 2013-2040.

Ben-David, I., Francesco Franzoni, and Rabih Moussawi, Hedge fund stock trading in the financial crisis of 2007-2009", Review of Financial Studies, 2012, 25(1), pp. 1-54

Aragon, George O., and Phillip Strahan, 2012, Hedge funds as liquidity providers: Evidence from the Lehman bankruptcy, Journal of Financial Economics 103, 570 – 587.

Coval, Joshua, and Erik Stafford, 2007, Asset Fire Sales (and Purchases) in Equity Markets, Journal of Financial Economics 86.

Duffie, Darrel, 2010, Presidential Address: Asset Price Dynamics with Slow-Moving Capital, Journal of Finance 65, 1237–1267.

Lou, Dong, 2012, A Flow-Based Explanation for Return Predictability, Review of Financial Studies, 25, 3457-3489.

Greenwood, R., and D. Thesmar. 2011. Stock price fragility. Journal of Financial Economics 102:471–90.

* Anton, Miguel, and Christopher Polk, 2014, "Connected stocks." The Journal of Finance 69.3, 1099-1127.

* Ben-David, I., Francesco Franzoni, Rabih Moussawi, and John Sedunov 2016, The Granular Nature of Large Institutional Investors, Working Paper.