Lectures: Monday 2-3:50pm (TS403); Thursday 2-2:50pm (TS403)

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Course Description
This course provides an introduction to empirical research in finance and surveys empirical methods commonly employed in finance. The main objectives of this course are: 1) to allow you to become informed consumers of empirical work in finance and, 2) to give you an overview of some of the important empirical facts and findings in finance. This course is organized around published empirical papers with an emphasis on econometric methods. A heavy reliance will be placed on analysis of financial data. This course also serves those students who are interested in pursuing a research agenda (i.e. becoming informed producers) in the empirical finance area.

Course Materials
Required
3. Lecture notes to be handed out in class. (Notes hereinafter)
4. Articles assigned in class.

Suggested
Econometrics

(The first three textbooks are for advanced-level students. The next two books are good references for beginners.)
Finance

Course Requirements
The prerequisite for this course is Econ0701 or equivalent. (It may be taken concurrently with this course.) If you haven’t taken Econ0701 or equivalent before, please talk to me after the first class meeting.

The course grade is based on a midterm exam (30%), final exam (45%), 3~4 written assignments (10%) and project/presentation (15%). Class participation and preparedness for class discussions of assigned homework problems and readings are especially important.

Detailed instructions on the project/presentation will be handed out later in class.

Exam and Assignment Policies
Midterm: March 10, Monday, 2-3:30pm. Final: TBA.

Both the midterm and the final exams are closed-book. Non-programmable calculators may be needed in the exams.

No makeup exam for the midterm. In case you can’t attend the midterm due to some uncontrollable conditions, the midterm weight will be shifted toward the final.

No late submission of assignments will be accepted. Unexcused absences from exams or failure to submit assignments will result in zero grades in the calculation of numerical averages.

Miscellaneous
You need to use software such as SAS, MATLAB, S Plus, Stata to solve problems and carry out the project analysis. The TA will hold tutorial sessions on some of the above-mentioned packages.

Most articles used in this course are available on the web (or at the library), for example, from [www.jstor.org](http://www.jstor.org). If an article is not available, I will ask the TA to prepare copies for you.
Course Outline (Tentative)

1. Market Efficiency and Properties of Returns (CLM ch. 1)
   • Fama, E., 1975, Short-term interest rates as predictors of inflation, American Economic Review 65, 269-282. (or Fama ch. 6)

2. Short-horizon Predictability of Asset Returns (CLM ch 2, 3.1-3.2)

3. Long-horizon Predictability of Asset Returns (CLM ch 2)

4. Market Microstructure (CLM ch. 3)

5. Event Studies (CLM ch. 4)

7. Capital Asset Pricing Models (CLM ch. 5)

8. Multifactor Pricing Models (CLM ch. 6)
9. GMM and Its Relation to Other Approaches (Cochrane chs. 10-16)

10. Data Snooping

11. Special Topics (Time Permitting)
    a. Momentum

    b. Liquidity

    c. Bayesian Analysis
       - Zellner, A., An Introduction to Bayesian Inference in Econometrics, Chapters 2, 3, 8 and Appendixes A and B.

    d. Time-varying Volatility Models