

Financial Economics

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Collegio Carlo Alberto

Preliminary Syllabus

Allievi and Ph.D. program – March-April 2017

Class: TBA – Material: TBA

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Outline: This course reviews the main methodological tools and the main research topics in equilibrium asset pricing. That is models that try to understand financial markets behavior in light of the economic activity. The first part of the course covers the foundations of asset pricing; the second part critically analyzes the leading asset pricing models; the third part introduces recent research challenges and potential explanations.

Grading: There will be a final exam.

Topics:

0. Mathematical background (if needed)
 - Itô's Lemma
 - Stochastic control and HJB equation
1. Foundations of asset pricing
 - CAPM
 - Intertemporal-CAPM
 - Consumption-CAPM
2. Empirical regularities, tests and research questions
 - Overview of the so-called asset pricing puzzles
3. Leading asset pricing models
 - Habit formation
 - Recursive utility and long-run risk
 - Disaster risk
 - Heterogeneity in preferences and beliefs
 - Labor leverage and limited market participation
4. Nowadays research topics (if time permits)
 - The timing of risk: facts and models
 - The value premium
 - Secular fluctuations in asset prices

Readings:

1. Sharpe, W.F., 1964. Capital Asset Prices: a Theory of Market Equilibrium Under Conditions of Risk. *Journal of Finance* 19(3), 425–442.

Lintner, J., 1965. The Valuation of Risky Assets and the Selection of Risky Investments in Stock Portfolios and Capital Budget. *Review of Economics and Statistics* 47, 13–37.

Mossin, J., 1966. Equilibrium in a Capital Asset Market. *Econometrica* 34, 768–783.

Merton, R., 1973. An Intertemporal Capital Asset Pricing Model. *Econometrica* 41(5), 867–887.

Roll, R., 1977. A Critique of the Asset's Pricing Theory's Tests: Part I. *Journal of Financial Economics* 4, 129–176.

Lucas, R.E. 1978. Asset Prices in an Exchange Economy. *Econometrica* 46, 1429–1445.
2. Cochrane, J.H., 2007. Financial Markets and the Real Economy, in R. Mehra, Ed. *Handbook of the Equity Premium*, pp. 237–325. Elsevier.

Ludvigson, S.C. 2013. Advances in Consumption-Based Asset Pricing: Empirical Tests, in *Handbook of the Economics of Finance*, ed. by G. M. Constantinides, and R. M. Stulz, pp. 799–1612. Elsevier.
3. Campbell, J. Y., and J. H. Cochrane, 1999. By Force of Habit: A Consumption-Based Explanation of Aggregate Stock Market Behavior. *Journal of Political Economy*, 107, 205–251.

Danthine, J.P., and J.B. Donaldson, 2002. Labour relations and asset returns. *Review of Economic Studies*, 69, 41–64.

Chan, Y.L., and L. Kogan, 2002. Catching Up with the Joneses: Heterogeneous Preferences and the Dynamics of Asset Prices. *Journal of Political Economy*, 110(6), 1255–1285.

Bansal, R., and A. Yaron, 2004. Risks for the Long Run: A Potential Resolution of Asset Pricing Puzzles. *Journal of Finance*, 59(4), 1481–1509.

Barro, R., 2006. Rare Disasters and Asset Markets in the Twentieth Century. *Quarterly Journal of Economics*, 121(3), 832–866.

Beeler, J., and J. Y. Campbell, 2012. The Long-Run Risk Model and Aggregate Asset Prices: An Empirical Assessment. *Critical Finance Review*, 1, 141–182.

Wachter, J.A., 2013. Can TimeVarying Risk of Rare Disasters Explain Aggregate Stock Market Volatility? *Journal of Finance*, 68(3), 987–1035.
4. Zhang, L. 2005, The Value Premium. *Journal of Finance* 60, 67–103.

Lettau, M., and J.A. Wachter, 2007. Why Is Long-Horizon Equity Less Risky? A Duration-Based Explanation of the Value Premium. *Journal of Finance* 62, 55–92.

Lettau, M., S. C. Ludvigson, and J.A. Wachter, 2008. The Declining Equity Premium: What Role Does Macroeconomic Risk Play. *The Review of Financial Studies*, 21(4), 1653–1687.

Binsbergen, J. H., M. W. Brandt, and R. S. Kojen, 2012. On the Timing and Pricing of Dividends. *American Economic Review*, 102(4), 1596-1618.

Belo, F., P. Collin-Dufresne, and R.S. Goldstein, 2015. Endogenous dividend dynamics and the term structure of dividend strips. *Journal of Finance* 70, 1115–1160.

Hasler, M., and R. Marfè, 2015. Disaster recovery and the term-structure of dividend strips. *Journal of Financial Economics* (forthcoming).

Marfè, R., 2015, Income insurance and the equilibrium term structure of equity. *Journal of Finance* (forthcoming).

Greenwald, D.L., M. Lettau, and S.C. Ludvigson, 2016. Origins of stock market fluctuations. NBER working paper.

Marfè, R., 2016, Labor Rigidity and the Dynamics of the Value Premium. Working paper.