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Class Meetings: Wednesday 3:00 - 5:45 p.m. Classroom: E 201
Office Hours: F 4:00-5:30 p.m. or by appointment

Course Objective

FIN 701 is the introductory course in financial economics which prepares the Ph.D. students with necessary tools for their future research. The objective of this course is to undertake a rigorous study of theory and empirical evidence, and applications relevant to asset pricing and help students close the gap between the course study and conducting scholarly research. As such FIN 701 covers the basic theory and empirical papers in asset pricing, and provides a concise framework of conceptual knowledge so that students can understand the literature on financial theory and how it all fits together. The course will also assist students to develop a critical perspective on the literature and identify potential research topics.

Course Materials

Required Textbook:

[C] Asset Pricing (Revised), by John Cochrane, Princeton University Press, 2005

Optional Textbooks:


Lecture notes, data sets, answers to assigned homework, supplementary materials, and announcements are available at Laulima. To download the files, log on at laulima.hawaii.edu
using your UH user name and password, and select "Resources" in "FIN-701-001 [MAN.89397.SP16]".

Course Evaluation

Class Participation / Homework / Presentation (40% of course grade)

You are expected to carefully read the material before the class and be prepared to discuss the issues in class. In addition, each student is expected to present one paper for this course. The detailed requirement of each presentation will be given as the course goes. Homework problems will be assigned for some lectures and should be turned in before the start of next class. The solutions to homework will be provided and some of them will be discussed in class.

Referee Report (20% of course grade)

Referee report is an integral part of being an academic. It is used in this course to encourage the students to read paper in a critical way. I will assign each student a different paper from what I reviewed for journals. Referee report should be written as if you were the reviewer for potential publication of the article in a major academic finance journal. It should be from two to five pages in length. The report should: (1) provide a concise summary of the paper; (2) succinctly state the paper’s important contributions in the best possible light; (3) critique any shortcomings and make suggestions for improvements; and (4) be accompanied by a short letter to the editor recommending rejection, revision, or acceptance and the reason for the recommendation.

Replication Project (20% of course grade)

The objective of the project is to reproduce some empirical results in the classic papers with up-to-date data and get accustomed with the econometric part of the course. Replicating empirical work in finance literature is a real challenge and often leads to unexpected surprises. Therefore, this project is not meant to reproduce the numerical results of those papers, but it is focused on to teach you the underlying economic ideas, econometric tools, and the financial models presented in these papers.

Students need to master one statistical software package (for example, MATLAB/SAS/STATA) and learn how to use the basic databases in Finance (Computstat, CRSP, WRDS databases) during this semester. To access the databases, I have created a WRDS account (http://wrds.schulich.upenn.edu) for the whole class. The Username is spr2016 and password is FIN701. The paper to be replicated should be chosen from the reading list or by the approval of the instructor.

Research Proposal (20% of course grade)

Students will write a research proposal on a topic linked to the class. The proposal should be approximately 5-10 pages. It does not have to be completely novel; for example, you can extend a published work using an improved methodology or a different dataset. However, you cannot simply replicate an existing study. In the research proposal, you should explain the contribution
that you hope the proposed paper will make, what is the background literature, and where you will get the data. The research proposal is due in the final week.

Course Outline

Week 1 (Jan 13): Course Overview, Structure and Introduction
   • [C] Preface, [CLM] Chapter 1

Week 2 (Jan 20): Expected Utility and Risk Aversion
   • [B] Chapter 1, [P] Chapter 1
   • Introduction to WRDS, CRSP, COMPSTAT

Week 3 (Jan 27): Consumption-Based Model
   • [C] Chapter 1
   • Introduction to WRDS, CRSP, COMPSTAT

Week 4 (Feb 3): Stochastic Discount Factor
   • [B] Chapters 2, 4, [C] Chapters 3, 4, [CLM] Chapter 8, [P] Chapter 4

Week 5 (Feb 10): Mean-Variance Analysis

Week 6 (Feb 17): CAPM, APT, and Linear Factor Models
   • [B] Chapter 6, [C] Chapters 6, 9, [CLM] Chapters 5, 6, [P] Chapter 3

Week 7 (Feb 24): Regression Application in Finance (I)
   • [C] Chapter 12, [BEM] Chapters 5, 6
   • Research Computing

Week 8 (Mar 2): Regression Application in Finance (II)
   • Empirical test of asset pricing models
   • Research Computing

Week 9 (Mar 9): Regression Application in Finance (III)
   • Estimating Standard Errors in Finance Panel Data Sets
   • Research Computing
Week 10 (Mar 16): The Predictability of Asset Returns

- [C] Chapters 20, 21, [CLM] Chapters 1, 2

Week 11 (Mar 30): The Cross-Section of Stock Returns (I)

- [BEM] Chapters 8, 9, 10

Week 12 (Apr 6): The Cross-Section of Stock Returns (II)

- [BEM] Chapters 11, 12, 15

Week 13 (Apr 13): Behavioral Finance (Optional)

Week 14 (Apr 20): Student Presentation

Week 15 (Apr 27): Student Presentation

Note: The schedule indicated above is tentative; changes may be made as the semester progresses.
Reading List


Gong, Qiang, Ming Liu, and Qianqiu Liu, 2015, Momentum is really short-term momentum, *Journal of Banking and Finance* 50, 169-182.


