

King Saud University

College of Business Administration

Council of Graduate Programs in Business Administration

Ph.D. Program in Business

Course Syllabus

FIN 616 - Seminar in Investment

First Semester 1432/1433 AH. (Fall 2011)

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**Catalog Description**

**FIN 616 - Seminar in Investment 3 (3+0)**

The objective of this course is to study, analyze, and evaluate the theoretical and empirical work on investment analysis, asset pricing, and portfolio management. Topics include financial market micro-structure, market efficiency and documented anomalies, time-series properties of asset returns and cross-sectional properties of asset returns implied by equilibrium asset pricing models, such as CAPM, APT, and other factor models and consumption-based asset pricing. BA 521.

**Course Objectives**

The objective of this course is to enable the student to be aware of the current state of the financial theory and empirical investment analysis, portfolio management and speculative instruments and the state of the art methodologies used to implement empirical analyses. The course will consist of student presentations and discussion of the articles on the reading list. The student is also required to submit a term paper at the end of the semester. This paper should be an original research - either theoretical, empirical, or both with publishable quality in major finance journals. In addition to article assignments and research paper, there will be a final exam. This exam will be 4 hours duration and will be closed book and close notes.

**Evaluation**

The following weighing scheme will be used:

- Assignments 30%

- Final Exam 40%

- Research paper 30%

**Textbooks and Materials**

Course materials will include a number of academic papers, chapters from several different textbooks, and some course notes. Useful reference books include:

* Campbell, John, Andrew Lo, and A. Craig MacKinlay, 1997, ``*The Econometrics of Financial Markets*,'' Princeton University Press, Princeton, New Jersey.
* Cochrane, John H., 2001, ``*Asset Pricing*,'' Princeton University Press, Princeton, New Jersey.

**Papers for Presentations and Discussions:**

**(this list is subjected to change; we might add new papers as we move forward).**

***Portfolio Theory and Its Application***

1. Markowitz, Harry., 1991 " Foundation of Portfolio Theory," Journal of Finance ,
2. Sharpe, W., 1964, “Capital Asset Prices: A Theory of Market Equilibrium under Conditions of Risk,” Journal of Finance, Vol. 19, 425-442.
3. Campbell, JY, 2000, “Asset Pricing at the Millennium,” Journal of Finance, 55:4, 1515-1567.
4. Friend, Irwin, and Marshall Blume, 1975, “The Demand for Risky Assets,” American Economic Review 65, 900-922.
5. Poterba, JM, 2001, “Demographic Structure and Asset Returns’, Review of Economics and Statistics,” 83:4, 565–584.

***Multifactor Models***

1. Eugene F. Fama, Kenneth R. French, 1996, “Multifactor Explanations of Asset Pricing Anomalies” Journal of Finance 51:1, 55 – 84.
2. Mark J. Flannery and Aris A. Protopapadakis, 2002, “Macroeconomic Factors Do Influence Aggregate Stock Returns,” Review Financial Studies 15:2, 751 - 782.
3. Vuolteenaho, Tuomo, 2002, “What Drives Firm-Level Stock Returns?” Journal of Finance 57:1, 233 – 264.
4. Amit Goyal and Pedro Santa-Clara “Idiosyncratic Risk Matters!”, The Journal of Finance, Vol. 58, No. 3, June 2003.
5. Campbell, J.Y., Polk, C.K. and Vuolteenaho, T., "Growth or Glamour? Fundamentals and Systematic Risk in Stock Returns" (July 2005). Harvard Institute of Economic Research Discussion Paper No. 2082 Available at SSRN: <http://ssrn.com/abstract=770905>

***Market Efficiency***

1. E. Fama, 1970, “Efficient Capital Markets: A Review of Theory and Empirical Work,” Journal of Finance (May 1970)
2. Grossman, S., and J. Stiglitz, 1980, “On The Impossibility of Informationally Efficient Markets,” American Economic Review, 70:3, 393 – 408.
3. Veronesi, P. 1999, “Stock Market Overreaction to Bad News in Good Times: A Rational Expectations Equilibrium Model,” Review of Financial Studies, 12, 5,
4. Steve Hogan, Robert Jarrow, Melvyn Teo and Mitch Warachka, 2004, “Testing market efficiency using statistical arbitrage with applications to momentum and value strategies,” Journal of Financial Economics 73: 3, 525-565.
5. Pastor L., and P. Veronesi, 2003, “Stock Valuation and Learning about Profitability,” with, Journal of Finance, 58:5, October 2003. (Lead Article.) Winner of 2003 Smith Breeden First Prize.

***Momentum Investing***

1. Johnson, Timothy, 2004, Rational momentum effects, The Journal of Finance 57, 585-608.
2. Chordia, Tarun, and Lakshmanan Shivakumar, 2002, Momentum, business cycle, and time-varying expected returns, The Journal of Finance 57, 985-1019.
3. Griffin, John, Susan Ji, and J. Spencer Martin, 2003, Momentum investing and business cycle risks: Evidence from pole to pole, The Journal of Finance 58, 2515-2547.
4. Cooper, Michael, Roberto Gutierrez, and Allaudeen Hameed, 2004, Market states and momentum, The Journal of Finance 59, 1345-1365.
5. Soeren Hvidkjaer, “A Trade-Based Analysis of Momentum”, Review of Financial Studies, (Summer 2006) 19 (2): 457-491.
6. Sagi, Jacob, and Mark Seasholes, 2007, Firm-specific attributes and the cross-section of momentum, Journal of Financial Economics 84, 389-434.
7. Liu, Laura Xiaolei, and Lu Zhang, 2008, Momentum profits, factor pricing, and macroeconomic risk, Review of Financial Studies 21, 2417-2448.

***Volume and Price***

1. Jonathan M. Karpoff , 1986, “A Theory of Trading Volume,” Journal of Finance 41:5, 1069 –1087.
2. Lamoureux, C. G., and W. D. Lastrapes, 1990, “Heteroskedasticity in Stock Return Data: Volume versus GARCH Effects,” Journal of Finance 45:1, 221 – 229.
3. AR Gallant, PE Rossi, and G Tauchen, 1992, “Stock prices and volume,” Review Financial Studies 5:2, 199 - 242.
4. Chordia, T., and B. Swaminathan, 2000, “Trading Volume and Cross-Autocorrelations in Stock Returns,” Journal of Finance 55:2, 913 – 935.
5. Chae, J., 2005, “Trading Volume, Information Asymmetry, and Timing Information,” Journal of Finance 60:1, 413 – 442.

***Volatility***

1. Stoll, Hans R. and Robert E. Whaley, 1990, “Stock Market Structure and Volatility,” Review of Financial Studies, 3:1, pp. 37-71.
2. Jones, CM, G Kaul, and ML Lipson 1994, “Transactions, Volume, and Volatility,” Review of Financial Studies, 7: 4, 631 - 651.
3. Lamoureux, CG, and WD Lastrapes, 1993, “Forecasting stock-return variance: toward an understanding of stochastic implied volatilities,” Review of Financial Studies, 6:2, 293 - 326.
4. Shalen CT, 1993, “Volume, volatility, and the dispersion of beliefs” Review of Financial Studies, 6:2 405 - 434.

***Other Anomalies***

1. Lakonishok, Josef, and Seymour Smidt, 1988, Are seasonal anomalies real? A ninety-year perspective, Review of Financial Studies 1, 403-425.
2. Cooper, McConnell, and Ovtchinnikov, The Other January Effect, JFE, 2006.
3. Stivers, L. Sun, and Y. Sun, The Other January Effect: International, Style, and Subperiod Evidence, Journal of Financial Markets, 2009.
4. Cooper, Gulen, and Schil, Asset Growth and the Cross-Section of Stock Returns”, Journal of Finance, 63, 1609-1651, 2008.

***Event Studies and Market Effects***

1. David Hirshleifer and Tyler Shumway “Good Day Sunshine: Stock Returns and the Weather”, Journal of Finance, Vol. 58, No. 3, June 2003.
2. Michael J. Cooper, John J. McConnell and Alexei V. Ovtchinnikov, 2006, “The other January effect,” Journal of Financial Economics 82: 2, 315-341.
3. Nicholas Barberis and Andrei Shleifer “Style Investing”, The Journal of Financial Economics, Vol. 68, No. 2, May 2003.
4. Wayne E. Ferson, Sergei Sarkissian and Timothy T. Simin “Spurious Regressions in Financial Economics?”, The Journal of Finance, Vol. 58, No. 4, August 2003.
5. BE Eckbo, V Maksimovic, and J Williams “Consistent estimation of cross-sectional models in event studies” Rev. Financ. Stud., Fall 1990; 3: 343 - 365.
6. Subhankar Nayak and Nagpurnanand R. Prabhala “Disentangling the Dividend Information in Splits: A Decomposition Using Conditional Event-Study Methods,” Rev. Financ. Stud., Winter, 2001; 14: 1083 - 1116.

***Analysts and Earnings***

1. Harrison Hong and Jeffrey D. Kubik “Analyzing the Analysts: Career Concerns and Biased Earnings Forecasts”, Journal of Finance, Vol. 58, No. 1, February 2003.
2. Chen, Q., and W. Jiang, 2003, “Analysts’ Weighting of Private and Public Information,” Rev. Finance. Stud., 19:1 319 - 355.
3. Easterwood, JC, and S.R. Nutt “Inefficiency in Analysts’ Earnings Forecasts: Systematic Misreaction or Systematic Optimism?” Journal of Finance, 54:5,
4. Siew Hong Teoh and T. J. Wong, “Why New Issues and High-Accrual Firms Underperform: The Role of Analysts' Credulity,” Rev. Financ. Stud., Summer 2002; 15: 869 - 900.

***IPOs and SEOs***

1. Smith, C., 1986, “Investment Banking and the Capital Acquisition Process,” Journal of Financial Economics, 15, 3.-29.
2. Ritter, J., “The long-run performance of Initial Public Offerings,” Journal of Finance, 46, 3-27.
3. Loughran, T, and J. Ritter, 1995, “The New Issues Puzzle,” Journal of Finance, 50, 23-51.
4. Bayless, M., and S. Chaplinsky, 1996, “Is There a Window of Opportunity for Seasoned Equity Issuance?,” Journal of Finance, 51, 253-278.
5. Carter, Richard B., Frederick H. Dark, and Ajai K. Singh, 1997, “Underwriter Reputation, Initial Returns, and the Long-Run Performance of IPO Stocks,” Journal of Finance, 53, 285-312.
6. Lyon, John, Brad M. Barber, and Chih-Ling Tsai,1999, “Improved Methods for Tests of Long-Run Abnormal Stock Returns,” Journal of Finance, 54, 165-201.
7. Pastor, L., and P. Veronesi, 2005, “Rational IPO Waves,” Journal of Finance, 60:4, 1713 –1757.

***Behavioral Finance***

1. Fama, E., 1998, "Market Efficiency, Long-term Returns, and Behavioral Finance," Journal of Financial Economics, 49, 283-306.
2. Kent D. Daniel; David Hirshleifer; Avanidhar Subrahmanyam, 2001, “Overconfidence, Arbitrage, and Equilibrium Asset Pricing,” Journal of Finance 56:3, 921 – 965.
3. Chan, W., Kothari, S., Frankel, R., 2004, “Testing Behavioral Finance Theories Using Trends and Consistency in Financial Performance,” Journal of Accounting & Economics 38, 3-50.
4. Kothari, S., Lewellen, J., Warner, J., 2006, “Stock Returns, Aggregate Earnings Surprises, and Behavioral Finance,” Journal of Financial Economics 79, 537-568.
5. Coval, J., and T. Shumway, 2005, "Do Behavioral Biases Affect Prices?," Journal of Finance,60:1, 1-34.
6. Nicholas Barberis; Ming Huang, 2001, “Mental Accounting, Loss Aversion, and Individual Stock Returns” Journal of Finance 56:4, 1247 – 1292.
7. Barberis, Nicholas, and Ming Huang, 2008, “Stocks as Lotteries: The Implications of Probability Weighting for Security Prices” American Economic Review 98, 2066-2100.
8. Routledge, Bryan R., and Stanley E. Zin, 2010 “Generalized Disappointment Aversion and Asset Prices” Journal of Finance 65:4, 1303–1332.

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