PHDBA 297T: INEFFICIENT MARKETS

Spring 2015

Course Description

Traditional finance is fundamentally based on the premise that investors and managers are rational and that asset prices are “efficient”. However, this paradigm is insufficient to describe many features of actual financial markets. This course is a Ph.D. level exploration of research papers that help us understand how institutional and behavioral frictions affect financial markets and therefore financial decision-making.

The evaluation will be based on the replication/extension of an empirical paper. Students should select an empirical academic paper related to one of the topics studied in class and replicate it. Once the replication is done, I expect the students to propose several potential extensions to the paper, and empirically implement at least one of them. This could be the basis for a research paper.

PHDBA 297T will consist essentially of (hopefully interactive) lectures. The course will meet in classroom C337 at Haas from 1:10 PM - 4:00 PM on Fridays.

Readings

Class notes will be posted to the bCourse website. There is no textbook for this course. In fact, there are no real textbook yet in behavioral finance/inefficient markets. Inefficient Markets (Oxford UP) by Andrei Shleifer provides a good coverage of some of the themes we will explore together and thus constitutes an interesting read.
Topics

I am tentatively putting up this syllabus but I expect it to change over the course of the semester.

Anomalies

References:

- Asness, Moskowitz and Pedersen 2013. Value and momentum everywhere. *Journal of Finance*
- Fama and French 1992. The cross-section of expected stock returns. *Journal of Finance*
- Fleckenstein, Longstaff and Lustig 2013. The TIPS-Treasury bond puzzle. *Journal of Finance*
- Lucca and Moench (Forthcoming). The Pre-FOMC Announcement Drift. *Journal of Finance*

Risky Arbitrage
References:

- Foucault, Sraer and Thesmar 2011. Individual investors and volatility. *Journal of Finance*

Asset pricing with shorting costs. The risk-return puzzle.

References:

- Ang, Hodrick, Xing and Zhang 2006. The Cross-Section of Volatility and Expected Returns. *Journal of Finance*

Asset pricing with Leverage Constraints

References:

- Adrian, Etula and Muir 2014. Financial intermediaries and the cross-section of asset returns. *Journal of Finance*
- Adrian, Moench and Shin 2013. Leverage asset pricing
- Adrian and Shin 2010. Liquidity and leverage. *Journal of Financial Intermediation*


• Hombert 2009. Solvency shocks, liquidity shocks, and fire sales


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**Arbitrage Capital**

**References:**


• Lou and Polk 2014. Comomentum: inferring arbitrage activity from return correlations


• Shleifer and Vishny 1997. The limits of arbitrage. *Journal of Finance*

• Stein 2005. Why are most funds open-end? Competition and the limit of arbitrage. *Quarterly Journal of Economics*

• Stein 2009. Presidential address: sophisticated investors and market efficiency. *Journal of Finance*

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**Career Concerns and Delegated Management**

**References:**

• Brunnermeier, Nagel and Pedersen 2008. Carry trades and currency crashes. *NBER Macroeconomics Annual*

• Chevalier and Ellison 1999. Career concerns of mutual fund managers. *Quarterly Journal of Economics*

• Dasgupta, Prat and Verardo 2011. Institutional trade persistence and long-term Equity returns. *Journal of Finance*

• Guerrieri and Kondor 2013. Fund managers, career concerns, and asset price volatility. *American Economic Review*


• Scharfstein and Stein 1990. Herd behavior and investment. *American Economic Review*


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**Bubbles and Market Timing**

**References:**

• Survey: Brunnermeier and Oehmke 2013. Bubbles, financial crises, and systemic risk. *Handbook of the economics of finance*

• Abreu and Brunnermeier 2003. Bubbles and crashes. *Econometrica*


• Brunnermeier and Nagel 2004. Hedge funds and the technology bubble. *Journal of Finance*

• Chevalier and Ellison 1997. Risk taking by mutual funds as a response to incentives. *Journal of Political Economy*


• Tirole 1985. Asset bubbles and overlapping generations. *Econometrica*

• Scheinkman and Xiong 2003. Overconfidence and speculative bubbles. *Journal of Political Economy*


• Khan, Kogan and Serafeim 2012. Mutual fund trading pressure: Firm-level stock price impact and timing of SEOs. *Journal of Finance*

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**Asset pricing with biases**

**References:**

• Barber and Odean 2001. Buys will be boys: Gender, overconfidence, and common stock investment. *Quarterly Journal of Economics*


• Milgrom and Stokey 1982. Information, trade and common knowledge. *Journal of Economic Theory*

• Tetlock 2011. All the news that’s fit to reprint: Do investors react to stale information? *Review of Financial Studies*