



15.474 Current Topics in Finance

Spring 2019

The course covers a series of advanced topics in finance. The topics are selected at the discretion of the instructors, in line with their current research. For each topic, the course proposes a rapid overview of the literature, an in-depth presentation of selected contributions, and a list of potential research topics. Primarily for doctoral students in finance, economics, and accounting.

Please see the “Course Schedule” and “Readings” sections below for the precise topics to be covered in the course this year. The course is designed to jump-start PhD dissertations; there is no final exam but a term paper and presentation requirement.

The PhD students interested in finance are strongly encouraged to take this course multiple times since the research covered will change every year.

Class Schedule

The class meets once per week, on Friday, 9 – 12:00pm, in E62-687.

Course Website

The course website is on Canvas and all teaching materials will be posted on this site (<https://canvas.mit.edu/courses/996>). Class announcements and lecture notes will be posted there.

Office Hours

Leonid Kogan: Tuesday, February 26 3:00-4:00pm; Tuesday, March 5 3:00-4:00pm

Eben Lazarus: Monday 10:30am-12pm, E62-633, or by appointment (elazarus@mit.edu).

Andrey Malenko: Friday 1pm-2:30pm, E62-619, or by appointment (amalenko@mit.edu).

Jonathan Parker: by appointment (japarker@mit.edu).

Christopher Palmer: by appointment (cjpalmer@mit.edu).

Adrien Verdelhan: Tuesday 10:30-12:00 pm, E62-621, or by appointment (adrienv@mit.edu).

Administrative Assistant

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Pre-requisites

This course is intended for M.I.T. finance and economics Ph.D. students. The students who are taking this course should have already taken econometrics, microeconomics and introductory financial economics.

Course Requirements and Grading

There is no final exam. The following weighting scheme will be used to determine each student's course grade:

- Regular attendance and class participation: 30%.
- Research project: 70%. The topic of term paper must be approved by March 30th; the term paper is due on April 30th; in-class presentations will be scheduled in the last week of semester (between May 10th and May 16th). Paper topics are not limited to the topics covered during the semester.

Course Materials

Class notes and readings will be available on the course website. There is no required textbook for this course; most of the material taught is not yet in textbooks.

Sloan Values

You are responsible for upholding Sloan's code of conduct, which mandates zero tolerance for cheating and plagiarism. For more details on Sloan's academic policies, please read the document "Classroom Values in Practice" which is available on the course website.

Course Schedule

Course Schedule		
1 & 2	February 8	Asset Pricing (Eben Lazarus)
3 & 4	February 15	Asset Pricing (Eben Lazarus)
5 & 6	February 22	Asset Pricing (Leonid Kogan)
7 & 8	March 1	Asset Pricing (Leonid Kogan)
9 & 10	March 8	Asset Pricing (Adrien Verdelhan)
11 & 12	March 15	Asset Pricing (Adrien Verdelhan)
13 & 14	March 22	Asset Pricing (Adrien Verdelhan), Corporate Finance (Andrey Malenko)
15 & 16	April 5	Corporate Finance (Andrey Malenko)
17 & 18	April 12	Corporate Finance (Andrey Malenko)
19 & 20	April 19	Asset Pricing/Corporate Finance (Jonathan Parker), Corporate Finance (Christopher Palmer)
21 & 22	April 26	Asset Pricing/Corporate Finance (Jonathan Parker)
23 & 24	May 3	Asset Pricing/Corporate Finance (Jonathan Parker)
25 & 26	May 10	Corporate Finance (Christopher Palmer)

Topics

Session 1, February 8th: Introduction and review of asset-pricing tests

Topics: Market efficiency, the joint hypothesis problem, and SDF variation.

Suggested readings:

Fama, “Efficient Capital Markets: II,” *Journal of Finance*, 1991.

Shiller, “Do Stock Prices Move Too Much to be Justified by Subsequent Changes in Dividends?,” *American Economic Review*, 1981.

Hansen and Jagannathan, “Implications of Security Market Data for Models of Dynamic Economies,” *Journal of Political Economy*, 1991.

Session 2, February 8th: Semiparametric asset-pricing tests using derivatives

Topics: New approaches in addressing the topics from Session 1.

Suggested readings:

Augenblick and Lazarus, “Restrictions on Asset-Price Movements Under Rational Expectations: Theory and Evidence,” Working Paper, 2018.

Giglio and Kelly, “Excess Volatility: Beyond Discount Rates,” *Quarterly Journal of Economics*, 2018.

Sessions 3 and 4, February 15th: Modern asset-pricing puzzles: the term structure of risk and return

Topics: The term structure of returns, and implications for macro-finance models.

Suggested readings:

Binsbergen, Brandt, and Koijen, “On the Timing and Pricing of Dividends,” *American Economic Review*, 2012.

Binsbergen and Koijen, “The Term Structure of Returns: Facts and Theory,” *Journal of Financial Economics*, 2017.

Hasler and Marfè, “Disaster Recovery and the Term Structure of Dividend Strips,” *Journal of Financial Economics*, 2016.

Lazarus, “Horizon-Dependent Risk Pricing: Evidence from Short-Dated Options,” Working Paper, 2018.

Gormsen and Lazarus, “Duration-Based Asset Pricing,” Working Paper, 2019.

Sessions 5 and 6, February 22nd: Introduction to Asset Pricing Models with Production

Topics: Models of firm investment in partial and general equilibrium, implications for asset pricing

Suggested readings:

Gomes, J. F., L. Kogan, and L. Zhang (2003). "Equilibrium cross section of returns." *Journal of Political Economy* 111(4), 693-732.

Zhang, L. (2005). The value premium. *Journal of Finance* 60(1), 67-103

Kaltenbrunner, G. and L. A. Lochstoer (2010). "Long-run risk through consumption smoothing." *Review of Financial Studies* 23(8), 3190-3224.

Kogan, L., D. Papanikolaou, 2012, "Economic Activity of Firms and Asset Prices." *Annual Review of Financial Economics*, 4, 361-384.

Kogan, L., D. Papanikolaou, 2013, "Firm Characteristics and Stock Returns: The Role of Investment-Specific Shocks." *Review of Financial Studies*, 26, 2718-2759.

Kogan, L., D. Papanikolaou, 2014, "Growth Opportunities, Technology Shocks, and Asset Prices." *Journal of Finance*, 69, 675-718.

Kogan, L., 2004, "Asset Prices and Real Investment." *Journal of Financial Economics*, 73(3), 411-431.

Session 7, March 1st: Displacement Risk

Topics: Models with technological innovation risk and imperfect risk sharing

Suggested readings:

Garleanu, N., L. Kogan, S. Panageas, 2012, "Displacement Risk and Asset Returns." *Journal of Financial Economics*, 105, 491-510.

Kogan, L., D. Papanikolaou, A. Seru, and N. Stoffman, 2017, "Technological Innovation, Resource Allocation, and Growth." *Quarterly Journal of Economics*, 132, 665-712.

Kogan, L., D. Papanikolaou, L. Schmidt, and J. Song, 2018, "Technological Innovation and the Distribution of Labor Income Growth." Working paper.

Kogan, L., D. Papanikolaou, 2018, "Equilibrium Analysis of Asset Prices: Lessons from CIR and APT," *Journal of Portfolio Management*, 44, 59-69.

Kogan, L., D. Papanikolaou, N. Stoffman, 2018, "Left Behind: Creative Destruction, Inequality, and the Stock Market," *Journal of Political Economy*, forthcoming.

Session 8, March 1st: Valuation in Proof-of-Stake Payment Systems

Topics: Token valuation in Proof-of-Stake payment systems and network security

Suggested readings:

Cong, Lin William, Ye Li, and Neng Wang, 2018, "Tokenomics: Dynamic Adoption and Valuation." Working Paper

Sockin, Michael and Wei Xiong, 2018 "A Model of Cryptocurrencies." Working Paper.

Budish, Eric, 2018, "The Economic Limits of Bitcoin and the Blockchain." NBER Working Paper No. 24717

Giulia Fanti, Leonid Kogan, Pramod Viswanath, 2018, “Economics of Proof-of-Stake Payment Systems.” Working paper.

Sessions 9 & 10, March 8th: Risk and Returns in Currency Markets

Topics: Systematic risk in currency markets. Macro-finance approaches in complete markets.

Suggested readings: Lustig, Roussanov, and Verdelhan (RFS, 2011), Verdelhan (JF, 2018)

Session 11, March 15th: Interest rate risk meets exchange risk

Topics: The term structure of currency risk premia. The role of permanent vs transitory shocks.

Suggested readings: Lustig, Stathopoulos, and Verdelhan (2019)

Session 12, March 15th: Beyond the complete market benchmark

Topics: Exchange rates in incomplete markets: a second-look at the key puzzles

Suggested readings: Lustig and Verdelhan (AER, 2019)

Session 13, March 22th: Returns without risk in currency markets

Topics: The case of the covered interest rate parity condition.

Suggested readings: Du, Tepper, and Verdelhan (JF, 2018), He and Krishnamurthy (AER, 2013), Garleanu and Pedersen (RFS, 2011), Gabaix and Maggiori (QJE, 2015).

Session 14, March 22th: Strategic communication and allocation of control rights: static models

Crawford, Sobel, “Strategic Information Transmission,” *Econometrica*, 1982.

Aghion, Tirole, “Formal and Real Authority in Organizations,” *Journal of Political Economy*, 1997.

Dessein, “Authority and Communication in Organizations,” *Review of Economic Studies*, 2002.

Sessions 15 and 16, April 5th: Strategic communication and allocation of control rights: dynamic models

Grenadier, Malenko, Malenko, “Timing Decisions in Organizations: Communication and Authority in a Dynamic Environment,” *American Economic Review*, 2015.

Malenko, Tsoy “Selling to Advised Buyers,” *American Economic Review*, forthcoming.

Malenko “Optimal Dynamic Capital Budgeting,” *Review of Economic Studies*, forthcoming.

Session 17, April 12th: Corporate finance implications of Knightian uncertainty

Malenko, Tsoy “Asymmetric Information and Security Design under Knightian Uncertainty,” Working Paper.

Session 18, April 12th: Corporate governance and shareholder voting

Background reading: Yermack “Shareholder Voting and Corporate Governance,” *Annual Review of Financial Economics*, 2010.

Malenko, Malenko “Proxy Advisory Firms: The Economics of Selling Information to Voters,” *Journal of Finance*, forthcoming.

Malenko, Shen “The Role of Proxy Advisory Firms: Evidence from a Regression-Discontinuity Design,” *Review of Financial Studies*, 2016.

Session 19, April 19th: Household saving and liquidity and big data I

JPMorgan Chase Institute, “The Consumer Spending Response to Mortgage Resets Microdata on Monetary Policy,” April 2017

Gelman, Kariv, Shapiro, Silverman, and Tadelis, "How Individuals Respond to a Liquidity Shock: Evidence from the 2013 Government Shutdown." *Journal of Public Economics* (forthcoming)

Gelman, Kariv, Shapiro, Silverman, and Tadelis, “Harnessing Naturally Occurring Data to Measure the Response of Spending to Income.” *Science* 345 (6193), 212-215, 2014.

Session 20, April 19th: Search in Retail Financial Markets

Hortaçsu and Syverson (*QJE*, 2004)

Argyle, Nadauld, Palmer (WP, 2017) (“Real Effects of Search Frictions...”)

Allen, Clarke, and Houde (*AER*, 2014)

Alexandrov and Koulayev (WP, 2018)

Sessions 21 and 22, April 26th: Portfolio choice

Meeuwis, Parker, Schoar, and Simester, “Belief Disagreement and Portfolio Choice,” September 2018.

Ameriks, Kézdi, Lee, and Shapiro, “Heterogeneity in Expectations, Risk Tolerance, and Household Stock Shares: The Attenuation Puzzle” *Journal of Business and Economic Statistics* (Forthcoming)

Carroll, Choi, Laibson, Madrian, and Metrick, “Optimal Defaults and Active Decisions,” *Quarterly Journal of Economics*, 2009, 124(4), 1639-1674.

Session 23, May 3rd: Household liquidity and big data II

Baugh, Ben-David, Park, and Parker, “Asymmetric Consumption Response of Households to Tax Payments and Refunds.”

Pagel & Olafsson, “The Liquid Hand-to-Mouth: Evidence from Personal Finance Management Software.” *Review of Financial Studies*, 2018.

Baugh, “Payday Borrowing and Household Outcomes; Evidence from a Natural Experiment.”

Session 24, May 3rd: Lending dynamics with adverse selection

Fishman and Parker, “Valuation, Adverse Selection, and Market Collapses,” *Review of Financial Studies*, 28(9), 2015, 2575-2607

Fishman, Parker, and Straub, 2019, notes.

Session 25, May 10th: Mental Accounting

Thaler (JEP, 1990)

Hastings and Shapiro (AER, 2018)

Argyle, Nadauld, Palmer (NBER WP, 2019) (“Monthly Payment Targeting...”)

Hastings and Shapiro (QJE, 2013)

Session 26, May 10th: Looser Credit, Higher Prices

Di Maggio and Kermani (RFS, 2017)

Favara and Imbs (AER, 2015)

Argyle, Nadauld, Palmer, Pratt (NBER WP, 2018)

Adelino, Schoar, Severino (NBER WP, 2012)