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
Idali Vega, E62-611, 617.715.4834, ivega@mit.edu

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**

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Topics

Session 1, February 8th: Introduction and review of asset-pricing tests
Topics: Market efficiency, the joint hypothesis problem, and SDF variation.
Suggested readings:

Session 2, February 8th: Semiparametric asset-pricing tests using derivatives
Topics: New approaches in addressing the topics from Session 1.
Suggested readings:

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:
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:

Session 7, March 1st: Displacement Risk
Topics: Models with technological innovation risk and imperfect risk sharing
Suggested readings:

Session 8, March 1st: Valuation in Proof-of-Stake Payment Systems
Topics: Token valuation if Proof-of-Stake payment systems and network security
Suggested readings:

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


**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.

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


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

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

**Session 18, April 12th**: Corporate governance and shareholder voting
Malenko, Malenko “Proxy Advisory Firms: The Economics of Selling Information to Voters,” Journal of Finance, forthcoming.

**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

**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


**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.”


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

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


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)