Financial Decisions

This course covers three areas of finance: Dynamic asset pricing models, portfolio selection and financial econometrics.

The main text of the course is


This book provides a good background to many of the topics we will cover, but we will also make extensive use of journal articles as well as chapters from a couple of other textbooks.

I. Fundamental Asset Pricing Models

1. The Fundamental Asset Pricing Model
   Cochrane chapters 1, 2, Appendix on continuous time mathematics, p. 489-495.

2. Factor Pricing Models (CAPM, ICAPM, APT)
   Cochrane chapter 9.


3. Term Structure of Interest Rates
   Cochrane, chapter 19


4. Currency Pricing

II. Optimal Portfolio Decisions

1. Basic Models and Techniques


2. Optimal Asset Allocation under Predictability of Returns
Campbell, J. and L. Viceira, 1999, Consumption and Portfolio decisions when expected returns are time varying. Quarterly Journal of Economics 114, 433-495.


III. Empirical Modeling and Testing


2. Puzzles in Asset Pricing
   Cochrane, Ch. 20, p. 387-389.


3. GMM tests of asset pricing models
   Cochrane Chs. 10,11,14.


4. Model Instability: Testing, Modeling and Forecasting


5. Predictability of Stock Returns
Cochrane ch. 20.1, 20.3


Engle and Rosenberg, 2002, JFE.


6. Extreme risks, dependencies in asset returns


Engle, R.F. and S. Manganelli, 2001, CAViaR: Conditional Value At Risk By Regression Quantiles


7. Speculative Bubbles and Noise Trading


8. Data-Snooping


