AG428/AG507 ASSET PRICING
2014/15 SEMESTER 1

NAME OF LECTURERS:
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NAME OF TUTORS:

CLASS DESCRIPTION
This class explores the stochastic discount factor approach to asset pricing.

CLASS AIMS
The aim of the class is to explore the theory and empirical evaluation of stochastic discount factor models.

PREREQUISITES
AG151 (Introduction to Finance and Accounting) or AG105 (Introduction to Finance and Financial Statistics), and all core Finance classes in years 2 and 3.

LEARNING OUTCOMES
The following learning outcomes will contribute to your self-analysis and reflection in your Student’s Personal Development Planning (SPDP). These learning outcomes will be assessed using the methods explained in the “Assessment” section in this Outline.

Subject-specific knowledge and skills
On completing this class you will be able to:

Subject specific knowledge and skills

A.1 Explain the stochastic discount factor approach to asset pricing and the link with the consumption CAPM.

A.2 Discuss the importance of the Law of One Price and No Arbitrage conditions for the existence of the stochastic discount factor and their applications in a number of empirical issues.

Please contact Jillian D’Agostino in the Department of Accounting and Finance if alternative formats of teaching materials are required or if you need any other assistance.
A.3 Evaluate the use of the volatility bounds and distance measures of Hansen and Jagannathan (1991,1997) in testing stochastic discount factor models.

A.4 Discuss the equivalence between mean-variance frontiers, expected return/beta models, and stochastic discount factors and the implications this has for empirical research.

A.5 Explain how conditioning information can be incorporated into asset pricing tests and the Hansen and Richard (1987) critique of conditional linear factor models.

A.6 Discuss the main linear factor models of the stochastic discount factor.

A.7 Explain the use of Generalized Method of Moments (GMM) estimation to estimate and evaluate stochastic discount factor models.

A.8 Test financial asset pricing models using Excel and interpret the resulting empirical findings.

Cognitive abilities and non-subject specific skills

B.1 Develop academic skills in reading and understanding academic research papers.

B.2 Develop computational skills in undertaking empirical research through the use of Excel in the areas covered by the class that are also applicable to other areas of Finance.

B.3 Develop analytical skills in interpreting empirical findings and recognising some of the limitations faced by empirical researchers.

B.4 Exercise independent judgement in assessing what are relevant research papers and in the evaluation of research findings.

ASSESSMENT

The modes of assessment are:

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<thead>
<tr>
<th>Assessment</th>
<th>Percentage</th>
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<tbody>
<tr>
<td>Coursework</td>
<td>50%</td>
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<tr>
<td>Final Examination</td>
<td>50%</td>
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<tr>
<td>Total</td>
<td>100%</td>
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</tbody>
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Please contact Jillian D’Agostino in the Department of Accounting and Finance if alternative formats of teaching materials are required or if you need any other assistance.
The coursework is due to be submitted on Monday of week 11. Fuller details of the coursework and final exam will be provided in the class.

Reassessment

TEACHING AND LEARNING
The teaching and learning strategy adopted in the course to meet the learning outcomes employs a variety of approaches. Students will learn through directed reading, independent reading, formal class contact in lectures and workshops, undertaking empirical analysis through the problem sets, and electronic resources. Formal class contact time through lectures and workshops will provide an overview of the relevant topics and a summary of research findings. Lectures/workshops will be held once every week for ten weeks of 3 hour sessions.

READING
The textbook is Asset Pricing: Revised Edition by John Cochrane (Princeton University Press). There will also be readings from journal research articles which will be given in class.

LECTURE PROGRAMME
The following topics will be considered:

1) The consumption model and the stochastic discount factor approach.
3) Volatility bounds and Distance measures
4) Stochastic discount factors, mean-variance efficiency, and expected return/beta models.
5) Conditioning information.
6) Linear factor models
7) Estimation and evaluation of stochastic discount factor models
8) Survey of empirical evidence