

FINANCE 3 cod 40216
BOCCONI UNIVERSITY
COURSE SYLLABUS
Professor M. M. Croce

Course Description

This course has three goals: (i) provide fundamental tools for the understanding of factor pricing models, (ii) be aware of main empirical findings in asset pricing, and (iii) connect factor pricing models and equilibrium economic models. The theoretical part is based on the 'Asset Pricing' textbook by J. Cochrane.

Preliminary Outline

Detailed instructions about the homeworks (HWs) will be given during the course. Our preliminary schedule is at the end of this document.

1. Factor Pricing Models

- CAPM and ICAPM
- Arbitrage Pricing Theory
- Conditional vs Unconditional Models

2. Regression-Based Tests of Linear Factor Models

- Time-series
- Cross-Sectional tests

3. Linear Factor Models in Discount Rate Form

- Horse Races
- Testing for characteristics
- Testing for Priced Factors
- Latest methods: C. Harvey critique

4. Empirical Findings

- Fama and French seminal approach
- Other investment strategies/ financial factors
- Currency-based Carry Trades (international)

5. Theory-driven Factors: factors suggested by equilibrium models

- Long-Run Risk Factors (news shocks)
- Investment-Minus-Consumption (investment shocks)
- Investment-based factors (q-theory at work)
- A macro-based conditional factor model for R&D firms (fiscal policy shocks)

6. TBA

Exams and Grading Criteria

There will be a final exam counting for 30% of the final score. The homeworks will count for 40%. The remaining 30% will be given to your presentations.

Office hours

I will be having office hours in my office, by appointment. I can be reached by e-mail at: **mmc287@gmail.com**. You have a great TA for this course: **Paolo Farroni**.