

SUMMER 2008
FINA 5990: FINANCIAL RESEARCH METHODOLOGY
Daily, 1:00 - 3:15 pm, Sanford 109

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Office Hours: By appointment

Course Description:

The databases and empirical methodologies used in performing financial research. Event study and regression methodologies in corporate finance research and investment-oriented methodologies such as the Fama-MacBeth procedure. Students gain experience in presentation of research and in refereeing papers.

Course Objectives:

I. The main objective of this course is to equip students with the basic technical skills needed to carry out empirical research in financial economics. To accomplish this, the course introduces students to databases and programming techniques that are frequently used in financial research.

Databases that will be covered in the course include:

- CRSP
- COMPUSTAT
- IBES
- SDC
- TAQ
- DATASTREAM
- OPTIONMETRICS

In order to have access to CRSP, COMPUSTAT etc., you will need to have a WRDS account. If you do not currently have a WRDS account, please go to: <http://wrds.wharton.upenn.edu/index.shtml> and set up an account under your name immediately.

II. The course is designed to enable students to obtain a working knowledge of SAS sufficient to extract and manipulate data sets that are typically encountered in financial research. Students will use such basic procedures as PROC REG, PROC SQL etc., as well as more advanced techniques like macros. The course will also cover commonly used empirical methodologies like event studies, regressions and matching procedures.

III. The course is also expected to provide students with a deeper understanding of what an academic job entails. Thus students will be expected to complete a number of referee reports and there will be several lectures on research by faculty. There will also be

lectures on the effective presentation of research results and papers (e.g. using word processing tools like LATEX).

Recommended Books:

- Using SAS in Financial Research, by Juha-Pekka Kallunki, John Broussard, and Ekkehart Boehmer, SAS Press
- The Little SAS Book: A Primer, by, Lora Delwiche and Susan Slaughter, SAS Press

Class Attendance:

The summer class is definitely not a “break”. The material to be covered is ambitious in scope and the pace will be fairly swift. We will generally not meet on Fridays; the faculty and I expect you to devote a generous amount of time to independent work on the projects and assignments from the course. It would be wise not to schedule any vacation time during this course.

Course Grading:

Programming Assignments 30%
Paper Replications 45%
Referee Reports 10%
Paper summaries and Presentations 15%

Paper Replication:

There will be no final exam in this class. Instead the final will involve limited replications of published papers: Womack (1996), Chen, Roll and Ross (1986) and Ritter (1991).

Honor code:

All academic work must meet the standards contained in “A Culture of Honesty”. All students are responsible to inform themselves about those standards before performing any academic work. Unless otherwise specified, I expect all work on projects and assignments to be your own. While I strongly encourage open and frank discussion in class, and collaboration on in-class activities, all other assigned work must be done individually.

Access to SAS and other programs:

SAS programs can be run through the WRDS server using secure shell software. To download this software go to <http://sitesoft.uga.edu/> and click on the link which says **SSH 3.2.9, Secure Shell Utilities for Windows**. Once installed you can set up access to your WRDS account by clicking: Profiles...Add Profiles. Enter the host name as **wrds.wharton.upenn.edu** and your username as set up. **A comprehensive online index for SAS can be found at <http://support.sas.com/91doc/docMainpage.jsp>**

Note: The syllabus is a general plan for the course; deviations announced to the class by the instructor may be necessary.

Course Outline:

	Work	Assignments Due
Week 1		
July 7 – Mon.	Contents of CRSP, COMPUSTAT, IBES, TAQ, Optionmetrics	Read: Darts versus Pros
July 8 – Tues.		
July 9 – Wed.	Datastream with John Prechtel – <i>meet in Library Lab A at 1 o'clock!</i> “General” papers summaries and presentations.	
July 10 – Thurs		Assignment #1 due
Week 2		
July 14 – Mon.	“Long-run performance” papers summaries and presentations.	Assignment #2 Due.
July 15 – Tues.	“Event Studies” papers summaries and presentations.	
July 16 – Wed.		
July 17 – Thurs.	“Asset Pricing” papers summaries and presentations	
Week 3		
July 21 – Mon.		Assignment #3 Assignment #4 Referee Report #1 Due.
July 22 – Tues.	“Papers for replication” papers summaries and presentations	Assignment #5
July 23 – Wed.	“Microstructure” first two papers summaries and presentations.	
July 24 – Thurs.	“Microstructure” second two papers summaries and presentations	
Week 4		
July 28 – Mon.	“Volatility” papers summaries and presentations	Assignment #6. Referee Report #2 due
July 29 – Tues.	“Miscellaneous” papers summaries and presentations	Replication 1 due
July 30 – Wed		Replication 2 due
July 31 - Thurs		Replication 3 due

Papers to be covered:

General:

Kahle and Walkling, "The Impact of Industry Classifications on Financial Research," *Journal of Financial and Quantitative Analysis*, 1996, 31, 309–335.

Shumway, "The Delisting Bias in CRSP Data," *Journal of Finance*, 1997, 52, 327–340.

Long-run performance:

Barber, Lyon and Tsai, "Improved Methods for Tests of Long-run Abnormal Stock Returns," *Journal of Finance*, 1999, 54, 165–201.

Conrad and Kaul, 1993, "Long-term Market Overreaction or Biases in Computed Returns?" *Journal of Finance*, vol.48, no.1, 39-63.

Loughran and Ritter, "The New Issues Puzzle," *Journal of Finance*, 1995, 50, 23–51.

Loughran and Ritter, "Uniformly least powerful tests of market efficiency," *Journal of Financial Economics*, 2000, 55, 361–389.

Event studies:

Boehmer, Musumeci, and Poulsen, "Event Study Methodology Under Conditions of Event-Induced Variance," *Journal of Financial Economics*, 1991, 30, 253–272.

MacKinlay, "Event Studies in Economics and Finance," *Journal of Economic Literature*, 1997, 35, 13–39.

Asset pricing:

Fama and MacBeth, 1973, "Risk, Return, and Equilibrium: Empirical Tests", *The Journal of Political Economy*, vol.81, no.3, 607-636.

Fama and French, 1993, "Common risk factors in the returns on stocks and bonds," *Journal of Financial Economics*, vol.33, 3-56.

Microstructure/Price discovery:

Chakravarty, Gulen, and Mayhew, 2004, "Informed Trading in Stock and Option Markets," *Journal of Finance*, vol. 59, no.3, 1235-1257.

Corwin and Lipson, 2000, "Order Flow and Liquidity around NYSE Trading Halts," *Journal of Finance* 55, 1771-1801.

Henry, 2006, "Short Selling, Informed Trading, and Stock Returns," *Working Paper, University of Georgia*.

Huang and Stoll, 1996, "Dealer Versus Auction Markets: A Paired Comparison of Execution Costs on Nasdaq and the NYSE," *Journal of Financial Economics* 41, 313-357.

Volatility:

Fleming, Kirby and Ostdiek, 2001, "The Economic Value of Volatility Timing," *Journal of Finance*, vol.56, no.1, 329-352.

Szakmary, Ors, Kim, and Davidson III, 2003, "The predictive power of implied volatility: Evidence from 35 futures markets," *Journal of Banking & Finance*, 27, 2151-2175.

Miscellaneous:

Busse and Irvine, 2006, "Bayesian Alphas and Mutual Fund Persistence," *Journal of Finance*, 2006, vol. 61, no.5, 2251-2288.

Linck, Netter and Yang, 2008, "The determinants of board structure," *Journal of Financial Economics* 87, 308-328.

Papers for replication:

Chen, Roll and Ross, 1986, "Economic Forces and the Stock Market", *Journal of Business*, Vol. 59, no.3, July, 383-403.

Ritter, 1991, "The Long-Run Performance of Initial Public Offerings," *Journal of Finance*, vol. 46, no. 1, 3-27.

Womack, "Do Analysts' Recommendations Have Investment Value?," *Journal of Finance*, 1996, 51, 137-167.