

**Pace University**  
**Lubin School of Business**

*DPS Seminar in Capital Markets*

**FIN 822**

**CRN: 23031**

**Spring 2013**

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**On Campus Meetings:** Friday, January 25, 1:00 PM – 5:00 PM  
Friday, February 15, 1:00 PM – 5:00 PM  
Friday, March 1, 1:00 PM – 5:00 PM  
Wednesday, April 17, 1:00 PM – 5:00 PM  
Friday, May 10, 1:00 PM – 5:00 PM

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**Course Description:**

FIN 822 develops a comprehensive doctoral perspective of the field of finance. It critically reviews the main financial theories and their empirical testing; evaluates the research methodologies and findings that support various theories and viewpoints of finance; explores the major contemporary topics and problems; and examines the implications of finance for future research, student education, and business practice. It begins the preparation for doctoral comprehensive examinations.

**Recommended books:**

Please note that one of the most important aspects of these texts is their references to published academic articles. Students are encouraged not only to read the text, but to also acquire and understand noteworthy papers.

1. Copeland, Thomas, J. Fred Weston and Kuldeep Shastri. **Financial Theory and Corporate Policy, 4th edition. Addison-Wesley, 2004.**
2. Culp, Chris, Risk Transfer, Wiley Finance, 2004.

3. **Cuthbertson, K. and Nietzsche, D., Quantitative Financial Economics, 2nd edition, Wiley, 2007.**
4. Dowd, Kevin, Beyond Value at Risk, 1998.
5. **Elton, Edwin, Martin Gruber, Stephen Brown and William Goetzman. Modern Portfolio Theory and Investment Analysis, 8th edition. John Wiley, 2009.**
6. Gregory, Jon, Counterparty Credit Risk, Wiley Finance, 2010.
7. Harris, L., Trading and Exchanges: Market Microstructure for Practitioners, Oxford University Press, 2003.
8. Hasbrouck, Joel, Empirical Market Microstructure, Oxford University Press, 2007.
9. **Hull, John C., Options, Futures, and Other Derivative Securities, 8th edition, Pearson Prentice Hall, 2012.**
10. Lhabitant, F.S., Handbook of Hedge Funds, Wiley, 2006.
11. Natenberg, S., Options Volatility & Pricing: Advanced Trading Strategies and Techniques, 1994.

### **Grading Scheme:**

Project:	50%
Article summaries/critiques:	25%
Paper discussion:	15%
Participation:	10%

### **Project:**

The project consists of a replication of an academic paper published in a top-tier finance journal (Journal of Finance, Journal of Financial Economics, the Review of Financial Studies, Journal of Financial and Quantitative Analysis, Journal of Banking and Finance, Financial Management, Journal of Corporate Finance, Journal of Financial Intermediation, Journal of Financial Markets, Journal of Empirical Finance, Financial Analysts Journal, Journal of International Money and Finance). Students may choose to focus on a topic related to their expected dissertation topic, though this is not obligatory. Students should submit the title of the paper they intend to replicate by February 28; preliminary results of the paper by April 15; and the completed paper replication (results and programming code) by May 20.

### **Article summaries/critiques:**

Each student is required to submit four separate summaries of articles. Students can choose the articles from among academic articles published in the top finance journals (Journal of Finance, Journal of Financial Economics, the Review of Financial Studies, Journal of Financial and Quantitative Analysis, Journal of Banking and Finance, Financial Management, Journal of Corporate Finance, Journal of Financial Intermediation, Journal of Financial Markets, Journal of Empirical Finance, Financial Analysts Journal, Journal of International Money and Finance) between 2009-present (including accepted papers available on their websites that have yet to be published). Each summary should be between 4 and 5 pages long (font size 12, double spaced) and should enable a sophisticated reader with little knowledge of the topic to develop a basic understanding of the contributions of the article. All summaries must be submitted by May 15.

**Paper discussion:**

Each student will be asked to discuss a paper selected from the list following each of the five main topics that will be covered this semester (see below). Students should submit the topic of the paper they intend to discuss by February 1. Papers to be discussed must cover different topics. Each student will present the literature review, methodology and results.

**Participation:**

The class participation component of the grade will be based on participation during on-campus meetings, and is based on the instructor's subjective opinion.

**Academic Integrity:**

An integral part of any educational system is to instill in its students an appreciation and practice of moral conduct. All members of the Pace community are expected to follow Pace University Academic Integrity Code, which expresses the University's philosophy of academic integrity, describes conduct that violates the Code, and sets forth applicable policies, procedures, and sanctions. In the Lubin School of Business, it is possible for your instructor to give you an F for assignments in which there is evidence of an infraction of academic integrity, an F for the class in which one or more of these infractions took place, or even request that you be suspended or expelled from the school. Academic integrity infractions can include, but are not limited to, copying and presenting the work of another student or resource as your own, using unauthorized resources such as an instructor's manual to complete assignments, copying the work of others during an exam, failing to reference the work of others or creating fake references in your assignments. When in doubt about what might be considered an academic integrity infraction, the best course of action is to ask your instructor for clarification so that you can avoid the potentially extreme penalties noted here.

**Reasonable Accommodations for Students With Disabilities:**

The University's commitment to equal educational opportunities for students with disabilities includes providing reasonable accommodations for the needs of students with disabilities. To request an accommodation for a qualifying disability, a student must self-identify and register with the Coordinator of Disability Services for his or her campus. No one, including faculty, is authorized to evaluate the need and arrange for an accommodation except the Coordinator of Disability Services. Moreover, no one, including faculty, is authorized to contact the Coordinator of Disability Services on behalf of a student. For further information, please see Information for Students with Disabilities on the University's web site.

## **Tentative Agenda (Subject to Change):**

### **On Campus Meetings:**

#### **Topic 1: Introduction and Overview, Mean-Variance Portfolio Theory, CAPM and APT (Jan 25<sup>th</sup>)**

- Readings:
  - Copeland, Weston, and Shastri chapters 5 and 6.
  - Elton, Gruber, Brown, and Goetzman chapters 4-9, 13-16.
  - Cuthbertson and Nietzsche chapter 5, 7 and 8.
  - Fama, E. and J. MacBeth, 1973. Risk, return, and equilibrium: Empirical tests, *Journal of Political Economy* 81, 607-636.
  - Gibbons, M, 1981. Multivariate tests of financial models, *Journal of Financial Economics* 10, 3-27.
  - Stambaugh, R, 1982. On the exclusion of assets from test of the two-parameter model, *Journal of Financial Economics* 10, 237-268.
  - Shanken, J, 1985. Multivariate tests of the zero-beta CAPM, *Journal of Financial Economics* 14, 327-348.
  - Fama, E. and K. French, 1992. The cross-section of expected stock returns, *Journal of Finance* 47, 427-465.

#### **Topic 2: Derivation of the Black Scholes Option Pricing Model, the Greeks, Volatility Surfaces, and the Binomial Option Pricing (Feb 15<sup>th</sup> & Mar 1<sup>st</sup>)**

- Readings:
  - Copeland, Weston, and Shastri chapter 7
  - Hull Chapters 9-19
  - Elton, Gruber, Brown, and Goetzman chapters 23.
  - Black, F. and M. Scholes, 1972. The Valuation of Option Contracts and a Test of Market Efficiency, *Journal of Finance* 27, 399-418.
  - Black, F. and M. Scholes, 1973. The Pricing of Options and Corporate Liabilities, *Journal of Political Economy* 81, 637-659.
  - Cox, J., S. Ross, and M. Rubinstein, 1979. Options Pricing: A Simplified Approach, *Journal of Financial Economics*, 229-263.
  - MacBeth, J. and L. Merville, 1979. An Empirical Examination of the Black-Scholes Call Option Pricing Model, *Journal of Finance*, 1173-1186.

#### **Topic 3: Interest Rates and Debt (Mar 1<sup>st</sup> & Apr 17<sup>th</sup>)**

- Readings:
  - Copeland, Weston, and Shastri chapter 8
  - Elton, Gruber, Brown, and Goetzman chapters 21 & 22
  - Hull Chapter 4
  - Altman, E. and S. Nammacher, 1985. The Default Experience on High Yield Corporate Debt, *Financial Analysts Journal*, 25-41.

- Balduzzi, P., E.J. Elton, and T.F. Green, 2001. Economic News and the Yield Curve: Evidence from the US Treasury Market, *The Journal of Financial and Quantitative Analysis*, 523-543.
- Blume, M.E and D.B. Keim, 1973. Risk and Return Characteristics of Lower Grade Bonds, *Financial Analysts Journal*, 26-33.
- Collin-Dufresne, P., R.S. Goldstein, and J.S. Martin, 2001. The Determinants of Credit Spread Changes, *The Journal of Finance*, 2177-2207.

**Topic 4: International Financial Management, Currency Swaps, Forward and Futures Contracts (Apr 17<sup>th</sup> and May 3<sup>rd</sup>)**

○ Readings:

- Copeland, Weston, and Shastri chapters 8 & 19
- Hull Chapters 2-7
- Cuthbertson and Nietzsche chapters 6, 20-22
- Elton, Gruber, Brown, and Goetzman chapters 12, 24
- DiMartino, D., L. Ward, J. Stevens, W. Sargisson, 1996. Proctor and Gamble's Derivatives Loss; Isolated Incident or Wake Up Call? *Derivatives Quarterly* 2(3), 10-21.
- Smith, D., 1997. Aggressive Corporate Finance; A Look at the Proctor and Gamble – Bankers Trust Leveraged Swap, *Journal of Derivatives* 4(4), 67-79.
- Solnik, B.H., 1974a. The International Pricing of Risk: An Empirical Investigation of the World Capital Market Structure, *The Journal of Finance* 29(2), 365-378.
- Solnik, B.H., 1974d. The International Market Model of Security Price Behavior, *Journal of Financial and Quantitative Analysis* 9(4), 537-554.

**Other topics:**

- **Choice, Utility Theory, Stochastic Dominance, and State Preference Theory**
  - Readings:
    - Elton, Gruber, Brown, and Goetzman chapter 1
    - Copeland, Weston, and Shastri chapters 3 and 4
    - Cuthbertson and Nietzsche chapter 1
- **Market Microstructure: Market structure, market participants, measuring and modeling liquidity, identifying buys and sells.**
  - Readings:
    - Hasbrouck chapters 1, 2, 5, 6
    - Harris chapters 5, 6, 10, 13-19
- **Market risk and counterparty risk**
  - Readings:

- Dowd chapters 1-6
  - Gregory chapters 1-3, 12-15
  - Culp chapters 1, 2, 5, 6
- **Capital Market Efficiency**
  - Readings:
    - Copeland, Weston, and Shastri chapters 10 and 11
    - Elton, Gruber, Brown, and Goetzman chapter 17
    - Cuthbertson and Nietzsche chapter 3
- **Capital Structure and the Cost of Capital**
  - Readings:
    - Copeland, Weston, and Shastri chapter 15
- **Dividend Policy**
  - Readings:
    - Copeland, Weston, and Shastri chapter 16
- **Corporate Control**
  - Readings:
    - Copeland, Weston, and Shastri chapter 18
- **Financial Markets and Institutions**
  - Readings:
    - Harris chapter 3, 26, 27
    - Cuthbertson and Nietzsche chapters 17-19.