

Capital Markets

Professor: Lloyd Blenman

Office: Friday 350 B. Telephone: 704-687-7705

Class Location: Friday 207. Class: TR 11.00 a.m-12.15 p.m.

Office hours: **T 8.30 a. m – 10.00 a. m & 3.30 p. m – 5.00 p.m.**

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Class Time

The class meets twice a week. At least our first meeting will be a one-hour organizational session during which we will, inter alia, finalize the allocation of papers. After you have chosen your papers, I will try to reach an agreement with you individually on a presentation schedule. I will permit modest changes in presentation times and papers up to March 1, 2017. When we meet regularly, we will try to have a paper presented in each session. This semester, we will have a final exam. We will utilize our penultimate meeting for a regular session and a retrospective view. I will adhere to university rules but am prepared to give you maximum flexibility over the time and location of the final exam.

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Course Content

This course is a rigorous treatment of selected elements of both domestic and international capital markets. I have chosen a broad range of topic areas to give you a sense of what is current frontier research in private, public, domestic and international markets. Each topic area contains many sub-areas. The papers chosen are a small subset of major published work in each topic area. Each regular class session will provide an in depth treatment of a specific paper that is in the set of the most important papers in the sub-area. While you may not have a direct interest in all the topic areas, I hope that there are at least three areas for which you have a passionate affinity. There are a number of supplemental papers listed in each area. I hope that if you wish to do research in a particular area, that the complete set of papers listed here, contains specific papers that you may want to address in more depth for your dissertation.

Prerequisites:

The course is directed at second, third and fourth year students interested in finance/financial economics. Prior course work in finance and statistics at the first-year PhD level is assumed. Exceptions will be granted based on exceptional circumstances. I expect that every student will be prepared to participate actively in each session, regardless of the topic being discussed.

Course Objectives and Deliverables

Since the class is a seminar one you will be expected to present papers and explain to me and the rest of the class what are the significant finance contributions of the papers presented. Papers will be assigned on a first come first served basis. I expect that each student will present at least three papers during the semester. Each week, at least one required paper will be presented in detail. Each student presented paper will be delivered by a single student over a period of at least 45 minutes. Where necessary you should as much as you can discuss the mathematical and econometric motivations of the paper. After each presentation session, **a minimum of 10** minutes will be set aside for a group discussion of the paper presentation and questions for the presenter. Every week, students are expected to read all the required papers and participate in the group discussion. I will identify those papers to you, on a weekly basis, when the class actually convenes.

The seminar will help you develop the following skills that will be critical in being able to develop a successful thesis proposal and to achieve a fruitful academic career: (a) the ability to isolate and summarize the key ideas in any paper (b) the ability to critically evaluate the strengths and weaknesses of any paper and be able to integrate these ideas into the stream of the existing literature (c) the ability to extend the good ideas in a paper so as to achieve breakthrough results and (d) the ability to present your ideas in a concise and interesting way. You should use PowerPoint, Beamer or some other specialized package for your presentations.

Assignments:

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Each assignment will ask you to (a) summarize and critically evaluate a specific paper and (b) develop its logical extension, treating the subject matter as the basis for a possible thesis proposal. For the summary and evaluation part of the assignment, each report's summary section should be no more than 6 pages, written in 11 point font. The entire report on each paper should not exceed 10 pages (without reference section). If you include a reference section your report should not exceed 15 pages. Reports should contain at minimum the following elements (i) a brief synopsis of the paper (ii) the paper's main contribution to the literature (iii) the methodological design of the paper (iv) the weaknesses of the paper (v) the robustness of the key results (vi) the key innovations in your suggested extensions and (vii) a section that explains and clarifies how your hypothesized innovations would change the area as we know it.

Submit all assignments (independent work) by email to me on the following schedule, **Feb. 10th**-first report; **Mar. 15th** –second report; **Apr. 20th** –third report; **May 2nd**. -fourth report. Your graded assignments will be returned within two weeks of my receiving them. I will make exceptions for unusual situations. You have almost complete freedom to choose the papers on which you want to write your reports. I will discuss in class what the limitations on your choices are. I am prepared to be flexible and give other types of assignments if the entire class is in agreement.

Grading

Grades are based solely on assignments, class participation, class presentations and the optional final exam. There are 4 assignments, with the first one commencing after week five. Class presentations will count for 40% of the final grade. Assignments will count for 20% of the final grade. Class participation will count for 20% of the final grade. The final exam will count for 20% of your grade.

Auditing

Auditing students are required to obtain permission from me prior to attending this class and to also formally register. Students auditing the course will present a similar number of papers as for credit students. Students are not allowed to audit without the intention of fulfilling this requirement. Auditing students are exempt from having to hand in any assignments. However, I will waive even these requirements for students who have passed their PhD dissertation proposals.

Class Schedule

Organizational Meeting (s): Jan. 10th – Jan. 12th 2017.

General Overview Lecture (s), Jan. 17th –Jan. 24th.

Topic 1. UIP and Forward Premium Puzzle (Jan. 26th. - Feb. 9th.)

3 Fama, E. F., and A. Farber (1979), "Money, Bonds and Foreign Exchange", *American Economic Review* 69, 639-649.

Hansen, L. P., and R. J. Hodrick (1980), "Forward Exchange Rates as Optimal Predictors of Future Spot Rates: An Econometric Analysis", *Journal of Political Economy* 88, 829-853. (P)

Grossman, S. J., and J. E. Stiglitz (1980), "On the Impossibility of Informationally Efficient Markets", *American Economic Review* 70, 393–408. (P)

Bilson, J. F. O., (1981), "The Speculative Efficiency Hypothesis", *Journal of Business* 54, 435–451. (H*)

Cumby, R. E., and M. Obstfeld (1981), "A Note on Exchange Rate Expectations and Nominal Exchange Rate Differentials: A Test of the Fisher Hypothesis", *Journal of Finance* 36, 697-703.

Edwards., S. (1982), "Exchange Rates and News: a Multi-Currency Approach", *Journal of International Money and Finance* 1, 211-224.

Carmichael, J., and P. W. Stebbing (1983), "Fisher's Paradox and the Theory of Interest", *American Economic Review* 73, 619-630.

Fama, E., (1984), "Forward and Spot Exchange Rates," *Journal of Monetary Economics* 14, 319-338. (PPH*)

Domowitz, I., and C. S. Hakkio (1985), "Conditional Variance and the Risk Premium in Foreign Exchange Market," *Journal of International Economics* 19, 47-66. (P)

Hanson, I., and C. Stuart (1986), "Fisher Hypothesis and International Capital Markets", *Journal of Political Economy* 94, 1330-1337.

Boyer, R. S., and F. C. Adams (1988), "Forward Premia and Risk Premia in a Simple Model of Exchange Rate Determination", *Journal of Money, Credit and Banking* 20, 633-644.

Froot, K. A., and R. H. Thaler (1990), "Foreign Exchange", *Journal of Economic Perspectives* 4, 179-192.

Frankel, J. A., and K. A. Froot (1990), "Forward Discount Bias: Is It an Exchange Risk Premium?", *Quarterly Journal of Economics* 104, 139-161. (P)

McCurdy, T. H., and I. G. Morgan (1991), "Tests for a Systematic Risk Component in Deviations from Uncovered Interest Rate Parity", *Review of Economic Studies* 58, 587-602.

Pesaran, M. H., and A. Timmermann (1992), "A Simple Nonparametric Test of Predictive Performance", *Journal of Business and Economic Statistics* 10, 461-465.

Bekaert, G., and R. J. Hodrick (1993), "On Biases in the Measurement of Foreign Exchange Risk Premiums," *Journal of International Money and Finance* 12, 115-138. (P)

Backus, D. K., A. W. Gregory and C. I. Telmer (1993), "Accounting for Forward Rates in Markets for Foreign Currency", *Journal of Finance* 48, 1887-1908. (P)

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Boudoukh, J., R. Matthew and R. F. Whitelaw (1994), "Industry Returns and the Fisher Effect", *Journal of Finance* 49, 1595-1615.

McCallum, B.T. (1994), "A Reconsideration of the Uncovered Interest Parity Relationship", *Journal of Monetary Economics* 33, 105-132. (P)

Brenner, R. J., and K. F. Kroner (1995), "Arbitrage, Cointegration, and Testing the Unbiasedness Hypothesis in Financial Markets", *Journal of Financial and Quantitative Analysis* 30, 23-42. (P)

Pesaran, M. H., and A. Timmerman (1995), "Predictability of Stock Returns: Robustness and Economic Significance", *Journal of Finance* 50, 1201-1229. (P)

Flood, R.P., and A. K. Rose (1996), "Fixes: Of the Forward Discount Puzzle", *Review of Economics and Statistics* 78, 748-752.

Baillie, T. R., and W. P. Ostberg (1997), "Central Bank Intervention and Risk in the Forward Market", *Journal of International Economics* 43, 483-497.

Bansal, R., (1997), "An Exploration of the Forward Premium Puzzle in Currency Markets," *Review of Financial Studies* 10, 369-403. (PPH*)

Marston, R. C., (1997), "Tests of Three Parity Conditions: Distinguishing Risk Premia and Systematic Forecast Errors", *Journal of International Money and Finance* 16, 285-303.

Hollifield, B., and R. Uppal (1997), "An Examination of Uncovered Interest Rate Parity in Segmented International Commodity Markets", *Journal of Finance* 52, 2145-2170. (P)

Mark, N.C., and Y. Wu (1998), "Rethinking Deviations from Uncovered Interest Parity: The Role of Covariance Risk and Noise", *Economic Journal* 108, 1686-1706. (P)

Anker, P., (1999), "Uncovered Interest Parity, Monetary Policy and Time-Varying Risk Premia", *Journal of International Money and Finance* 18, 835-851. (P)

Bansal, R., and M. Dahlquist (2000), "The Forward Premium Puzzle: Different Tales from Developed and Emerging Economies," *Journal of International Economics* 51, 115-144. (PP)

Baillie, R. T., and T. Bollerslev (2000), "The Forward Premium Anomaly is Not as Bad as You Think", *Journal of International Money and Finance* 19, 471-488.

Alexius, A., (2001), "Uncovered Interest Rate Parity Revisited", *Review of International Economics* 9, 505-517.

Backus, D., S. Foresi and C. Telmer (2001), "Affine Term Structure Models and the Forward Premium Anomaly", *Journal of Finance* 56, 279-304. (P)

Flood, R. P., and A.K. Rose (2002), "Uncovered Interest Parity in Crisis", *IMF Staff Papers* 49, 252-266.

Kodres, L. E., and M. Pritsker (2002), "A Rational Expectations Model of Financial Contagion", *Journal of Finance* 57, 769-99. (P)

Nucci, F., (2003), "Cross-currency, Cross-maturity Forward Exchange Premiums as Predictors of Spot Rate Changes: Theory and Evidence", *Journal of Banking and Finance* 27, 183-200.

Ahn, D., (2004), "Common Factors and Local Factors: Implications for Term Structures and Exchange Rates," *Journal of Financial and Quantitative Analysis* 39, 69-102. (P)

Chinn, M.D., (2006), "The (Partial) Rehabilitation of Interest Rate Parity in the Floating Rate Era: Longer Horizons, Alternative Expectations, and Emerging Markets", *Journal of International Money and Finance* 25, 7-21.

Yang, K., and M. Shintani (2006), "Does the Prediction Horizon Matter for the Forward Premium Anomaly? Evidence from Panel Data", *Economics Letters* 93, 255-260.

Bekaert, G., M. Wei and Y. Xing (2007), "Uncovered Interest Rate Parity and the Term Structure", *Journal of International Money and Finance* 26, 1038-1069. (P)

Chakraborty, A., and G. W. Evans (2008), "Can Perpetual Learning Explain the Forward Premium Puzzle?", *Journal of Monetary Economics* 55, 477-490.

Chakraborty, A., and S. E. Haynes (2008), "Econometrics of the Forward Premium Puzzle", *Economics Bulletin* 6, 1-17.

di Jiovianni, J., and J. C. Shambaugh (2008), "The Impact of Foreign Interest Rates on the Economy: The Role of the Exchange Rate Regimes", *Journal of International Economics* 74, 341-361. (P)

Alvarez, F., A. Atkeson and P. Kehoe (2009), "Time-varying Risk, Interest Rates and Exchange Rates in General Equilibrium", *Review of Economic Studies* 76, 851–878. (P)

Verdelhan, A., (2009), "A Habit-Based Explanation of the Exchange Rate Risk Premium," *Journal of Finance* 65, 123-146. (P)

Burnside, C., M. Eichenbaum and S. Rebelo (2009), "Understanding the Forward Premium Puzzle: A Microstructure Approach", *American Economic Journal: Macroeconomics* 1, 127- 154. (P)

Mehl, A., and L. Cappiello (2009), "Uncovered Interest Parity at Long Horizons: Evidence on Emerging Economies", *Review of International Economics* 17, 1019–1037. (P)

Bacchetta, P., and E. van Wincoop (2010), "Infrequent Portfolio Decisions: A Solution to the Forward Discount Puzzle", *American Economic Review* 100, 870-904. (P)

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Frankel, J., and J. Poonawala (2010), "The Forward Market in Emerging Currencies: Less Biased than in Major Currencies", *Journal of International Money and Finance* 29, 585-598.

Ichiue, H., and K. Koyama (2011), "Regime Switches in Exchange Rate Volatility and Uncovered Interest Parity", *Journal of International Money and Finance* 30, 1436–1450. (P)

Lee, B. J., (2011), "Uncovered Interest Parity: Cross Sectional Evidence", *Review of International Economics* 19, 219–231.

Burnside, C., B. Han, D. Hirshleifer and T. Y. Wang (2011), "Investor Overconfidence and the Forward Premium Puzzle", *Review of Economic Studies* 78, 523-558. (P)

Bansal, R., and I. Shaliastovich (2013), "A Long-Run Risks Explanation of Predictability Puzzles in Bond and Currency Markets", *Review of Financial Studies* 26, 1-33. (P)

Coudert, V., and V. Mignon (2013), "The Forward Premium Puzzle and the Sovereign Default Risk", *Journal of International Money and Finance* 32, 491-511. (P)

Balvers, R. J., and A. F. Klein (2014), "Currency Risk Premia and Uncovered interest Parity in the International CAPM", *Journal of International Money and Finance* 41, 214–230. (P)

Topic 2. Excess Returns, Carry Trade, Liquidity and Volatility (Feb. 21st. - Mar. 14th)

Frankel, J. A., (1973), "Elasticities and the Interest Rate Parity Theory", *Journal of Political Economy* 81, 741-747. (H)

Diamond, P. A., and J. E. Stiglitz (1974), "Increases in Risk and Risk Aversion", *Journal of Economic Theory* 8, 337-360. (H)

Frankel, J. A., and R. M. Levich (1975), "Covered Interest Arbitrage: Unexploited Profits?", *Journal of Political Economy* 83, 325-338. (H)

Frankel, J. A., and R. M. Levich (1977), "Transactions Costs and Interest Arbitrage: Tranquil versus Turbulent Periods", *Journal of Political Economy* 85, 1209-1226. (H)

Levi, M. D., (1977), "Taxation and Abnormal International Capital Flows", *Journal of Political Economy* 85, 635-646. (H)

Deardorff, A. V., (1979), "One-Way Arbitrage and Its Implications for Foreign Exchange Markets", *Journal of Political Economy* 87, 351-364. (H)

Garman, M. B., and M. J. Klass (1980), "On the Estimation of Security Price Volatilities from Historical Data", *Journal of Business* 53, 67-78.

Stiglitz, J., and A. Weiss (1981), "Credit Rationing in Markets with Imperfect Information", *American Economic Review* 61, 393-411. (H*)

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Becker, S., (1983), "Variances of Security Price Returns Based on High, Low and Closing Prices," *Journal of Business* 56, 97-112. (P)

Diamond, D. W., and P. H. Dybvig (1983), "Bank Runs, Deposit Insurance, and Liquidity", *Journal of Political Economy* 91, 401-419. (H*)

Booth, L. D., (1984), "Bid-ask spreads in the Market for Forward Exchange", *Journal of International Money and Finance* 3, 209-222.

Roll, R., (1984), "A Simple Implicit Measure of the Effective Bid-ask Spread in an Efficient market". *Journal of Finance* 39, 1127-1139. (H*)

Amihud, Y., and H. Mendelson (1986), "Asset Pricing and the Bid-ask Spread", *Journal of Financial Economics* 17, 223-249. (H*)

Hodrick, R. J., S. Srivastava (1986), "The Covariation of Risk Premiums and Expected Future Spot Exchange Rates", *Journal of International Money and Finance* 5, 5-21. (P)

Fama, E. F., and R. R. Bliss (1987), "The Information in Long-Maturity Forward Rates." *American Economic Review* 77, 680-692.

Glassman, D., (1987), "Exchange Rate Risk and Transactions Costs: Evidence From Bid-ask Spreads", *Journal of International Money and Finance* 6, 479-490.

Taylor, M. P., (1989), "Covered Interest Arbitrage and Market Turbulence", *Economic Journal* 99, 376-391. (P)

Bossaerts, P., and P. Hillion (1991), "Market Microstructure Effects of Government Intervention in the Foreign Exchange Market", *Review of Financial Studies* 4, 513-54. (P)

Blenman, L. P., (1991), "A Model of Covered Interest Rate Arbitrage Under Market Segmentation", *Journal of Money, Credit and Banking* 23, 706-717. (P)

Grilli, V., and N. Roubini (1992), "Liquidity and Exchange Rates", *Journal of International Economics* 32, 339-352.

Bekaert, G., and R. J. Hodrick (1992), "Characterizing Predictable Components in Excess Returns on Equity and Foreign Exchange Markets", *Journal of Finance* 47, 467-509. (P)

Bollerslev, T., and I. Domowitz (1993), "Trading Patterns and Prices in the Interbank Foreign Exchange Market", *Journal of Finance* 48, 1421-1443 (P).

Kehoe, T., and D. Levine (1993), "Debt-Constrained Asset Markets," *Review of Economic Studies* 60, 865-888. (P)

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Glosten, L. R., R. Jagannathan and D. E. Runkle (1993), "On the Relation between the Expected Value and the Volatility of the Nominal Excess Return on Stocks", *Journal of Finance* 48, 1779-1801. (P)

Canova, F., and J. Marrinan (1993), "Profits, Risk and Uncertainty in Foreign Exchange Markets", *Journal of Monetary Economics* 32, 259-286. (P)

Lee, T. H., (1994), "Spread and Volatility in Spot and Forward Exchange Rates", *Journal of International Money and Finance* 13, 375-383.

Cavaglia, S. M., W. F. Verschoor and C. C. C. P. Wolff (1994), "On the Biasedness of Forward Foreign Exchange Rates: Irrationality or Risk Premia?", *Journal of Business* 67, 321-343. (P)

Jorion, P., (1995), "Predicting Volatility in the Foreign Exchange Market", *Journal of Finance* 50, 507-528. (P)

Heaton, J., and D. Lucas (1996), "Evaluating the Effects of Incomplete Markets on Risk Sharing and Asset Pricing," *Journal of Political Economy* 104, 443-487. (P)

Fama, E., and K. French (1996), "Multifactor Explanations of Asset Pricing Anomalies", *Journal of Finance* 51, 55-84. (P)

Diamond, D. W., (1997), "Liquidity, Banks and Markets", *Journal of Political Economy* 105, 928-956. (P)

Lesmond, D. A., J. P. Ogden and C. A. Trzcinka (1999), "A New Estimate of Transaction Costs," *Review of Financial Studies* 12, 1113–1141. (P)

Davis, J., E. Fama and K. French (2000), "Characteristics, Covariances and Average Returns: 1929 to 1997", *Journal of Finance* 55, 389–406. (P)

Yang, D., and Q. Zhang (2000), "Drift Independent Volatility Estimation Based on High, Low, Open and Close Prices", *Journal of Business* 73, 477-492. (P)

Chordia, T., R. Roll and A. Subrahmanyam (2001), "Market Liquidity and Trading Activity", *Journal of Finance* 52, 501-530. (P)

Hasbrouck, J., and D. J. Seppi (2001), "Common Factors in Prices, Order Flows and Liquidity", *Journal of Financial Economics* 59, 383-411. (P)

Maheu, J. M., and T. H. McCurdy (2002), "Nonlinear Features of Realized FX Volatility", *Review of Economics and Statistics*, 84, 668-681. (P)

Campbell, J. Y., R. Viciara and R. M. White (2003), "Foreign Currency For Long-term Investors", *Economic Journal* 113, C1-C25. (P)

Kogan, L., (2004), "Asset Prices and Real Investment," *Journal of Financial Economics* 73, 411-432. (P)

9 Acharya, V. V., and L. H. Pedersen (2005), "Asset pricing with liquidity risk", *Journal of Financial Economics* 77, 375-410. (P)

Wu. S., (2005), "Interest Rate Risk and the Forward Premium Anomaly in Foreign Exchange Markets", *Journal of Money, Credit and Banking* 39, 423-442. (P)

Burnside, C., M. Eichenbaum, I. Kleshchelski and S. Rebelo, (2006), "The Returns to Currency Speculation", *NBER Working Paper* 12489. (P)

Yogo, M., (2006), "A Consumption-Based Explanation of Expected Stock Returns", *Journal of Finance* 61, 539-580. (P)

Brennan, M., and Y. Xia (2006), "International Capital Markets and Foreign Exchange Risk", *Review of Financial Studies* 19, 754-795. (P)

Liu, W., (2006), "A Liquidity-Augmented Capital Asset Pricing Model", *Journal of Financial Economics* 82, 631-671. (P)

Burnside, C., M. Eichenbaum and S. Rebelo (2007), "The Returns to Currency Speculation in Emerging Markets", *American Economic Review* 97, 333-338.

Pavlova, A., and R. Rigobon (2007), "Asset Prices and Exchange Rates", *Review of Financial Studies* 20, 1139–1180. (P)

Bhansali, V., (2007), "Volatility and the Carry Trade", *Journal of Fixed Income*, 72-84.

Villanueva, O. M., (2007), "Forecasting Currency Excess Returns: Can the Forward Bias Be Exploited?", *Journal of Financial and Quantitative Analysis* 42, 963-990. (P)

Lustig, H., and A. Verdelhan (2007), "The Cross-Section of Foreign Currency Risk Premia and US Consumption Growth", *American Economic Review* 97, 89–117. (P)

Dunis, C. L., and J. Miao (2007) "Trading Foreign Exchange Portfolios with Volatility Filters: The Carry Model Revisited", *Applied Financial Economics* 17, 249-255.

Korajczyk, R. A., and R. Sadka (2008), "Pricing the Commonality across Alternative Measures of Liquidity", *Journal of Financial Economics* 87, 45–72. (P)

Burnside, C., M. Eichenbaum and S. Rebelo (2008), "Carry Trade: The Gains of Diversification", *Journal of the European Economic Association* 6, 581–588.

Fama, E. F., and K. French (2008), "Dissecting Anomalies", *Journal of Finance* 63, 1653–1678. (P)

Gomes, F., and A. Michaelides (2008), "Asset Pricing with Limited Risk Sharing and Heterogeneous Agents," *Review of Financial Studies* 21, 415-449. (P)

Clarida, R., J. Davis and N. Pedersen (2009), "Currency Carry Trade Regimes: Beyond the Fama Regression", *Journal of International Money and Finance* 28, 1375–1389. (PP)

Corcoran, A., (2009), "The Determinants of Carry Trade Risk Premia", *Working Paper, Federal Reserve Bank of New York*. (P)

Bollerslev, T., G. Tauchen and H. Zhou, (2009), "Expected Stock Returns and Variance Risk Premia", *Review of Financial Studies* 22, 4463-4492. (P)

Brunnermeier, M. K., S. Nagel and L. Pedersen (2009), "Carry Trades and Currency Crashes," *NBER Macroeconomics Annual* 23, 313-348. (P)

Darvas, Z., (2009), "Leveraged Carry Trade Portfolios", *Journal of Banking and Finance* 33, 944–957.

Bansal, R., D. Kiku and A. Yaro (2010), "Long-Run Risks, the Macroeconomy, and Asset Prices", (2010), *American Economic Review* 100, 1-5.

Griffoli, T., and A. Ranaldo (2010), "Limits to Arbitrage during the Crisis: Funding Liquidity Constraints and Covered Interest Parity", *Working Paper, Swiss National Bank*. (P)

Brennan, M., and A. Wang (2010), "The Mispricing Return Premium", *Review of Financial Studies* 23, 3437-3468. (P)

Ranaldo, A., and P. Söderlind (2010), "Safe Haven Currencies", *Review of Finance* 14, 385-407.

Christiansen, C., A. Rinaldo and P. Soderlind (2011), "The Time-Varying Systematic Risk of Carry Trade Strategies", *Journal of Financial and Quantitative Analysis* 46, 1107-1125. (P)

Andersen, T. G., T. Bollerslev and N. Meddhai (2011), "Realized Volatility Forecasting and Market Microstructure Noise", *Journal of Econometrics* 160, 220-234.

Lustig, H., N. Roussanov and A. Verdelhan (2011) "Common Risk Factors in Currency Markets", *Review of Financial Studies* 24, 3731-3777. (P)

Baillie, T. R, and S. S. Chang (2011), "Carry Trades, Momentum Trading and the Forward Premium Anomaly", *Journal of Financial Markets* 14, 441-464. (P)

Burnside, C., M. Eichenbaum, I. Kleshchelski and S. Rebelo (2011), "Do Peso Problems Explain the Returns to the Carry Trade?", *Review of Financial Studies* 24, 853-891. (P)

Jylha, P., and M. Suominen (2011), "Speculative Capital and Currency Carry Trades", *Journal of Financial Economics* 99, 60-75. (P)

Burnside, C., (2011), "The Cross-Section of Foreign Currency Risk Premia and Consumption Growth Risk: Comment", *American Economic Review* 101, 3456-3476. (P)

Diamond, D. W., and R. G. Raghuram (2011), "Fear of Fire Sales, Illiquidity Seeking and Credit Freezes" *Quarterly Journal of Economics* 126, 537-591. (P)

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Corwin, S. A., and P. Schultz (2012), "A Simple Way to Estimate Bid-ask Spreads from Daily High and Low Prices", *Journal of Finance* 28, 1375-1389. (P)

Karolyi, G. A., K. H. Lee and M. A. V. Dijk (2012), "Understanding Commonality in Liquidity around the World", *Journal of Financial Economics* 105, 82-112. (P)

Menkhoff, L., L. Sarno, M. Schmeling and A. Schrimpf (2012), "Carry Trades and Global Foreign Exchange Volatility", *Journal of Finance* 67, 681-718. (P)

Sarno, L., P. Schneider and C. Wagner (2012), "Properties of the Forward Premium", *Journal of Financial Economics* 105, 279-310. (P)

Mancini, L., A. Rinaldo and J. Wrampelmeyer (2013), "Liquidity in the Foreign Exchange Market: Measurement, Commonality and Risk Premiums", *Journal of Finance* 68, 1805-1841. (P)

Cenedese, G., L. Sarno and I. Tsiakas (2014), "Foreign Exchange Risk and the Predictability of Carry Trade Returns", *Journal of Banking and Finance* 42, 302-313.

Pasquariello, P., (2014), "Financial Market Dislocations", *Review of Financial Studies* 27, 1868-1914. (P)

Maggiori, M., M. Lettau and M. Weber (2014), "Conditional Risk Premia in Currency Markets and Other Asset Classes", *Journal of Financial Economics* 114, 197-225. (P)

Szymanowska, M., F. De Roon, T. Nijman and R. Van Den Goorbergh (2014), "An Anatomy of Commodity Futures Risk Premia", *Journal of Finance* 69, 453-482. (P)

Karnauk, N., A. Rinaldo and P. Soderlind (2015), "Understanding FX Liquidity", *Review of Financial Studies* 28, 3073-3108. (P)

Maggiori, M., and X. Gabaix (2015), "International Liquidity and Exchange Rate Dynamics", *Quarterly Journal of Economics* 130, 1369-1420. (P)

Abankwa, S., and L. P. Blenman (2015), "FX Liquidity Risk and Carry Trade Returns", *Working Paper, University of North Carolina-Charlotte*.

Barroso, P., and P. Santa-Clara (2015), "Beyond the Carry Trade: Optimal Currency Portfolios", *Journal of Financial and Quantitative Analysis* 50, 1037 – 1056. (P)

Kaurijoki, M., J. Nikkinen and J. Äijö (2015), "Return-Implied Volatility Dynamics of High and Low Yielding Currencies", *Journal of Futures Markets* 35, 1026-1041. (P)

Topic 3. Asset Pricing, Arbitrage, Optimal Portfolios and Diversification (Mar. 16th – Apr. 4th.)

Markowitz, H., (1952), "Portfolio Selection." *Journal of Finance* 7, 77–91. (H)

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Textbooks

There are no required textbooks for this course, however the ones mentioned below are highly recommended for inclusion in your reference library. Please ensure that you select one that closely aligns

with your core interests and make that the basis for your detailed use during this course. I will make references to one or more of these books during our seminar.

1. "Asset Pricing and Portfolio Choice Theory", (2010), Kerry Back, Oxford University Press.
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3. "Theory of Asset Pricing", (2008), George Pennachi, Addison Wesley.
4. "Empirical Dynamic Asset Pricing: Model Specification and Econometric Assessment", (2006), Kenneth Singleton, Princeton University Press.
5. "The Econometrics of Financial Markets", (1997), John Campbell, Andrew Lo, and A. Craig MacKinlay, Princeton University Press.

Guide to Papers

Papers that are marked (P) or (H or H*) may be presented by students. Papers not covered (and not labelled) can be part of your supplemental readings. Papers that are marked (PP) may be covered by me. Papers that are marked (H) are ones of historical significance and can be presented if you have a real interest in the origins of the literature. Papers that are marked (H*) are relevant from a historical perspective but are also still currently heavily cited. Papers that are unmarked are supplemental papers or interesting papers that are too short for a full session presentation but which may be used as assignments. Even the very short papers can be the basis for a future dissertation.

Academic Integrity

Students are advised to apprise themselves of, and adhere to the rules specified in the UNC-Charlotte code of student integrity regulations, which will be enforced.

Diversity Statement

The Belk College of Business strives to create an inclusive academic climate in which the dignity of all individuals is respected and maintained. Therefore, we celebrate diversity that includes, but is not limited to ability/disability, age, culture, ethnicity, gender, language, race, religion, sexual orientation, and socio-economic status.