Summary

Asset pricing theories are concerned with determining the expected returns of assets whose payoffs are risky. These include not only financial securities such as stocks and bonds, but also real assets such as venture capital. Explicitly, these models analyse the relationship between risk and expected return, and address the crucial question of how to value risk. In this course, we shall look at econometric tests of the most popular empirically oriented asset pricing models currently in use, including linear stochastic discount factor pricing models, and intertemporal consumption-based models. But first, we shall review the econometrics of portfolio and stochastic discount factor mean-variance frontiers. In addition, we shall discuss estimation and inference in multivariate dynamic models using both (pseudo-)maximum likelihood and the generalised method of moments. The two main references for the course are the textbooks by Campbell, Lo and MacKinlay, and Cochrane. Additional references are listed below. Although the lectures will be to a large extent self-contained, some background in both econometric theory and finance at the level of the textbooks by Hamilton and Ingersoll respectively, would be convenient.

Reading list

1. Estimation and inference in parametric time series models.


2. Introduction to portfolio and stochastic discount factor mean-variance frontiers


3. Spanning tests


4. Tests of asset pricing theories