

ASSET PRICING 1
Danish Doctoral School of Finance Ph.D. course
Fall 2008

Teachers. Simon Lysbjerg Hansen and Claus Munk, both Department of Business and Economics, University of Southern Denmark in Odense.

Structure. The work load in the course is equivalent to 48 lessons of 45 minutes each, split into approximately 32 lessons of lectures (= 24 full hours) and approximately 16 lessons of problem discussion (= 12 full hours). The course is organized as 4 two-day sessions, Thursdays and Fridays. See dates below. The tentative schedule for each day is as follows:

Thursdays		Fridays	
9.30-10.30	Lecture	8.30-9.30	Lecture
10.45-11.45	Lecture	9.45-10.45	Lecture
12.00-12.45	Lunch	11.00-12.00	Lecture
12.45-13.45	Lecture	12.00-12.45	Lunch
13.45-15.00	Work on problems	12.45-14.00	Work on problems
15.00-16.30	Discuss problems	14.00-15.30	Discuss problems

Lunches and coffee breaks are sponsored by the Danish Doctoral School of Finance. Participants not enrolled as a student at any university or business school have to pay DKK 10,000 for the full course including lunches and coffee breaks.

Location. University of Southern Denmark, Campusvej 55, DK-5230 Odense M. See room numbers on the plan below. “Seminar” means the seminar room at the Department of Business and Economics. Use the main entrance, walk up the stairs and turn right and then left, and go upstairs. If you want to spend the night in Odense, here are some suggestions close to the central station (prices for single rooms per night):

Hotel Domir	www.domir.dk	DKK 545 incl. breakfast and internet
Hotel CABINN	www.cabinn.com	from DKK 485 incl. internet, breakfast DKK 50
City Hotel	www.cityhotelodense.eu	from DKK 715 incl. internet and breakfast

You can get from the city center to the university by taking bus 41 labeled “Universitetet” from the train station or in front of City Hotel; in peak hours there is a bus every 10 minutes. Get off at the main entrance of the university. The bus ride is approximately 20 minutes.

Exams. At the end of the course students will be given a problem set, which they have to answer within 2-3 weeks. The answers will be evaluated by the teachers of the course and graded on a pass/fail basis.

Exercises. You will not be able to solve all the problems in the short time allocated to individual work on the days we meet, so you should try to solve (most of) the problems before the session.

Literature and tentative schedule. The lectures will mainly be based on the lecture notes Munk (2008) that can be downloaded from www.sam.sdu.dk/~cmu/cmu_pub3.htm. In addition we will use some journal articles and chapters from the textbook Cochrane (2005). Cochrane's book will probably also be used in the Financial Econometrics course next spring. In the schedule below some of the references to Cochrane's book are in parentheses. These parts will not add much to the lecture notes and can be skipped but maybe some of you prefer Cochrane's presentation.

Date, teacher	Room	Topic	Literature
Thu 9 Oct (Simon)	Seminar	Short introduction and overview; Modeling financial markets	Notes 1, Cochrane 1+2 Notes 2-3
Fri 10 Oct (Simon)	74	State prices	Notes 4 (Cochrane 3.1, 3.2, 3.5, 4)
Thu 30 Oct (Simon)	142	Individual preferences and optimality	Notes 5-6 (Cochrane 3.3)
Fri 31 Oct (Simon)	74	Equilibrium	Notes 7 (Cochrane 2.2, 3.4)
Thu 20 Nov (Claus)	Seminar	Consumption-CAPM and asset pricing puzzles	Notes 8.1-8.6, Cochrane 21
Fri 21 Nov (Claus)	74	Potential resolutions of puzzles * habit formation * heterogeneous preferences * recursive utility and long-run risk * heterogeneous labor income	Notes 8.7-8.9 Bansal (2007) Constantinides and Duffie (1996)
Thu 4 Dec (Claus)	99	Factor models	Notes 9, Cochrane (5-6), 7, (8-9), 20.2
Fri 5 Dec (Claus)	74	The term structure of interest rates	Notes 10 (Cochrane 19)

References

- Bansal, R. (2007). Long-Run Risks and Financial Markets. *Federal Reserve Bank of St. Louis Review* 89(4), 283–300.
- Cochrane, J. H. (2005). *Asset Pricing* (Revised ed.). Princeton University Press.
- Constantinides, G. M. and D. Duffie (1996). Asset Pricing with Heterogeneous Consumers. *Journal of Political Economy* 104(2), 219–240.
- Munk, C. (2008, June). Financial Asset Pricing Theory. Lecture notes, University of Southern Denmark.