Outline

- Course overview: coverage, requirement, and grading
- Finance, economy, and society
- The evolution of modern finance
- The profession of finance academics
Lectures, Exercises, and Assignments

Nov 11
- Structural Estimations
- Cross-Sectional Estimations
- Exercise 1
- Hansen Singleton

Nov 18
- Time-Varying Expected Return and Volatility
- Options
- Exercise 2
- Fama French

Nov 25
- Fixed Income
- Currency
- Exercise 3

Dec 2
- Credit Market
- Banking and Financial Crises
- Exercise 4

Dec 9
- Financial Intermediaries
- Behavioral Finance and Household Finance

Dec 16
- Microstructure
- Q & A
Elective Assignments, Two out of Six, Due on Jan 13

- **Structural Estimations**
  - Bakshi, Cao, and Chen (1997)
- **Cross-Sectional Estimations**
  - Time-Varying Expected Return and Volatility
- **Options**
  - Hu, Pan, and Wang (2013)
- **Fixed Income**
  - Geng and Pan (2019)
- **Credit Market**
  - Hong, Lu, and Pan (2019)
- **Financial Intermediaries**
  - Lucca and Moench (2011)
- **Microstructure**
  - Bao, Pan, and Wang (2011)
- **Behavioral Finance and Household Finance**
  - Behavioral Finance and Household Finance

Current Date: November 11, 2019
Course Requirements and Grading:

- Regular attendance and class participation: 30%.
- Empirical exercises, 20%: four exercises with 5% each.
- Mandatory assignments, 30%: two assignments with 15% each.
- Elective assignments: 20%: two assignments with 10% each.
- There is no final exam.
Thirty-plus years ago, when I was a graduate student in economics, only the least ambitious of my classmates sought careers in the financial world...everyone knew that banking was, well, boring.

In the years that followed, of course, banking became anything but boring. Wheeling and dealing flourished, and pay scales in finance shot up, drawing in many of the nation’s best and brightest young people (O.K., I’m not sure about the “best” part). And we were assured that our supersized financial sector was the key to prosperity.

Instead, however, finance turned into the monster that ate the world economy.
The Financial Sector

Figure 7: Annual Income of Engineers and Financiers

** 1932 and 1933 total profits negative
The Financial Sector, Relative Wage

Source: Philippon and Reshef (2008)
Capital Markets: Bond, Equity, Currency, and Commodities

- Barclays US Bond Agg
- S&P 500 Index
- Dollar Index
- GS Commodity Index
Cumulative Returns

- Bond
- Equity
- Dollar
- Commodity

Jun Pan
November 11, 2019
Modern Finance: Theory, Practice, and Lessons

- Two-Fund Separation (Tobin)
- Portfolio Theory (Markowitz)
- CAPM (Sharpe)
- Efficient Markets Hypothesis (Samuelson, Fama)
- Investments and Capital Structure (Modigliani and Miller)
- Index Mutual Funds (Bogle)
- First Stock Index Futures
- First US Options Exchange, CBOE
- Option Pricing Theory (Black, Scholes, Merton)
- First TIPS
- First Stock Index Futures
- OTC Derivatives Interest Rate Swaps
- S&L Bailout Collapse of Junk Bonds
- Birth of Index Funds (McQuown)
- Mortgate Backed Securities (Fannie Mae)
- Efficient Markets Hypothesis (Samuelson, Fama)
- Index Mutual Funds (Bogle)
- First Stock Index Futures
- Financial Crisis
- Enron Scandal
- Dot-Com Peak
- LTCM Crisis
- Asian Crisis
- Credit Derivatives (CDS)
- Chinese Stock Market Crash
- Trump Trade War
- Large Derivatives Losses
- Financial Crisis
- Dodd-Frank
- European Sovereign Crisis
- Trade War

SAIF 交大高金
Jun Pan 潘军
November 11, 2019 13 / 15
What has Mattered to Economics since 1970s?

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Source: Kim, Morse, and Zingales (2006)
### What has Mattered to Economics since 1970s?

#### Institutional Breakdown of Highly Cited Articles by Half-Decade

**Panel A: Breakdown by Where Author Resided at Time of Writing**

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