

Class 1: Introduction

Empirical Asset Pricing

Jun Pan

**Shanghai Advanced Institute of Finance
Shanghai Jiao Tong University**

November 24, 2020

Outline

- Organization of the class: lectures, presentations, assignments, and grading.
- Finance, economy, and society: the value of finance.
- The evolution of modern finance and its impact.
- The academic profession: is it for you?

- **Lectures and Office Hours**

- ▶ **Lectures:** Tuesdays and Thursdays 1:30-4:30pm.
- ▶ **Office Hours:** Thursdays 4:30-5:30pm.
- ▶ **Teaching Assistant:** Chengyu Bai (cybai.18@saif.sjtu.edu.cn).

- **Course Requirements and Grading:**

- ▶ **Classroom:** Participation (10%) and presentations (20%).
- ▶ **Assignments:** Six discussion reports (30%) and five assignments (20%).
- ▶ **Project:** One individual project (20%).

Schedule

Nov 24

Structural
Estimations

Dec 1

Cross-
Sectional

Dec 8

Global
Markets

Dec 15

Macro
and AP

Dec 22

Microstructure
and AP

Dec 29

FinTech

Nov 26

Dec 3

Dec 10

Dec 17

Dec 24

Dec 31

“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

Share of the financial sector in domestic corporate profits (%)

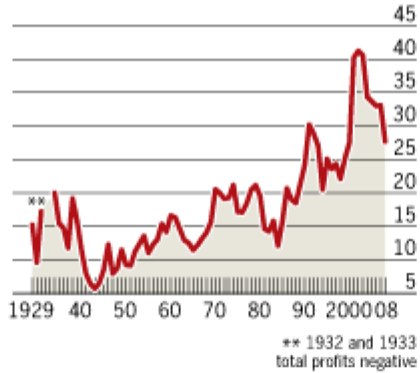
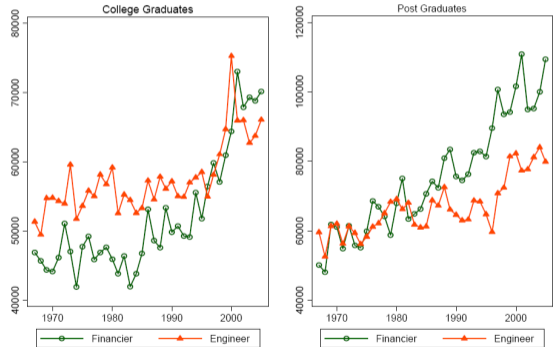


Figure 7: Annual Income of Engineers and Financiers



The Financial Sector, Relative Wage

Figure 1: Relative Wage and Education in the Financial Industry

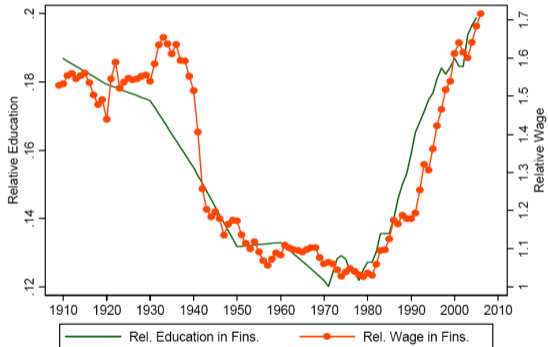
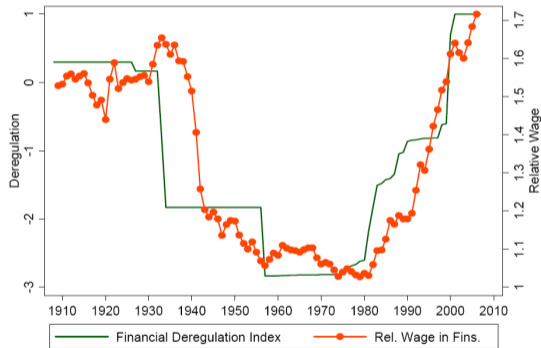
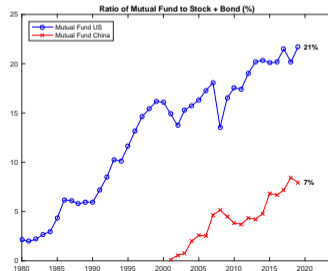
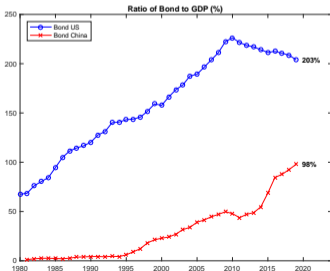
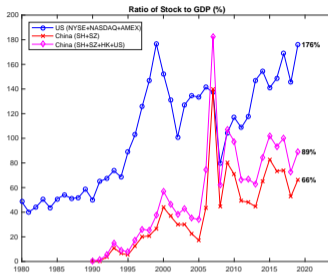
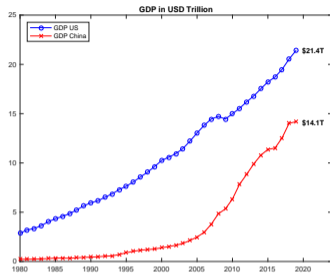


Figure 6: Relative Financial Wage and Financial Deregulation



Source: Philippon and Reshef (2008)

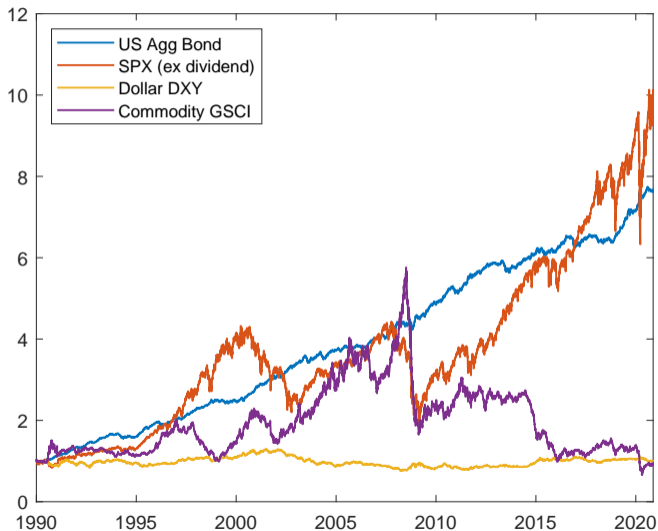
Capital Markets in the US and Chinese Economy



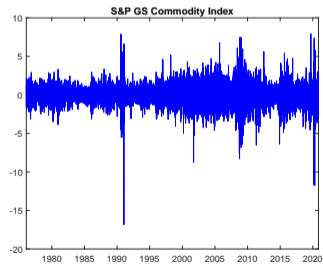
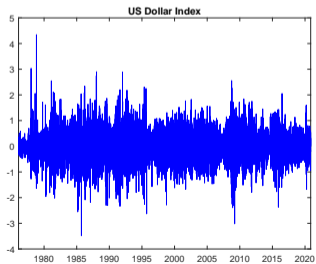
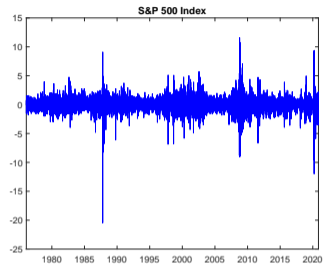
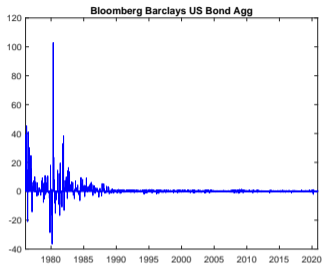
End-2019	US	CN
GDP	\$21T	\$14T
Equity	\$38T	\$13T
Bond	\$44T	\$14T
Mutual Fund	\$18T	\$2T*

* Includes money market funds

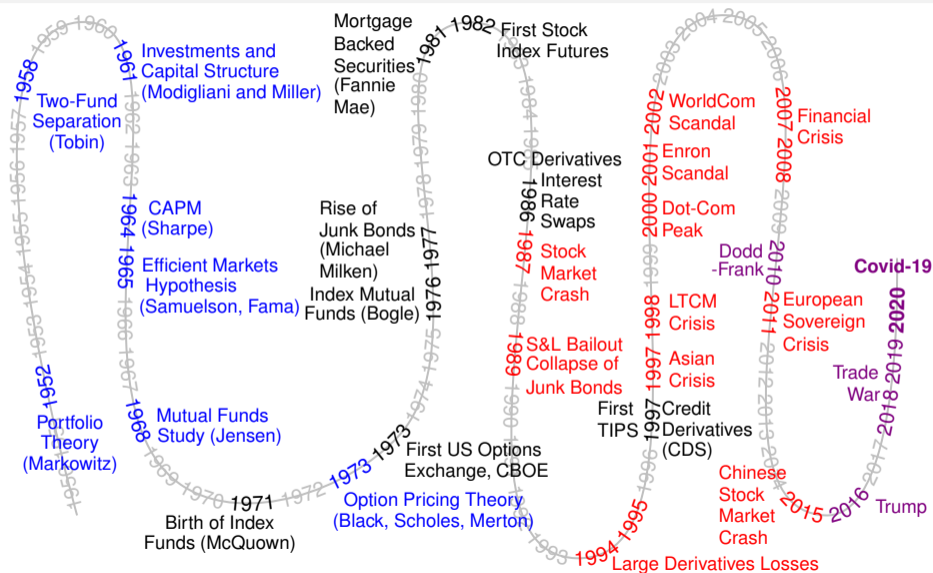
Capital Markets: Bond, Equity, Currency, and Commodities



Daily Returns (%)



Modern Finance: Theory, Practice, and Lessons



What Has Mattered to Economics Since 1970s?

<i>Main contribution</i>	<i>1970– 1974</i>	<i>1975– 1979</i>	<i>1980– 1984</i>	<i>1985– 1989</i>	<i>1990– 1994</i>	<i>1995– 1999</i>	<i>Total</i>
Methodological	6.7% (2)	28.2% (11)	28.6% (10)	28.6% (10)	22.9% (8)	22.9% (8)	23.4% (49)
Empirical	13.3 (4)	10.3 (4)	11.4 (4)	25.7 (9)	31.4 (11)	60.0 (21)	25.4 (53)
Survey	3.3 (1)	—	2.9 (1)	—	2.9 (1)	5.7 (2)	2.4 (5)
Theoretical	76.7 (23)	61.5 (24)	57.1 (20)	42.9 (15)	40.0 (14)	11.4 (4)	48.7 (100)
Experimental	—	—	—	2.9 (1)	2.9 (1)	—	1.0 (2)
Observations total	30	39	35	35	35	35	209

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

<i>Hosting Institution</i>	<i>1970– 1974</i>	<i>1975– 1979</i>	<i>1980– 1984</i>	<i>1985– 1989</i>	<i>1990– 1994</i>	<i>1995– 1999</i>	<i>Total</i>
MIT	13.3%	9.8%	2.9%	8.3%	8.4%	3.5%	7.6%
Harvard	2.8	—	—	4.9	15.2	15.9	6.3
Total Cambridge	16.1	9.8	2.9	13.2	23.6	19.4	13.9
University of Chicago	23.3	21.2	18.6	9.8	16.2	11.2	16.7
Northwestern	—	—	5.7	1.5	3.9	4.0	2.5
Total Chicago	23.3	21.2	24.3	11.2	20.1	15.1	19.2
Stanford	4.4	5.1	5.7	9.5	3.7	1.5	5.0
University of California, Berkeley	3.3	4.3	2.9	2.9	5.4	—	3.2
Total Bay Area	7.8	9.4	8.6	12.5	9.1	1.5	8.2
Rochester	3.3	6.4	12.9	4.4	4.4	—	5.4
Yale	1.7	4.7	1.4	8.6	9.1	2.0	4.6
University of Pennsylvania	—	5.1	4.3	—	3.4	8.9	3.7
Carnegie-Mellon	6.7	—	10.0	4.4	—	2.5	3.8
Princeton	5.0	1.3	1.4	4.4	3.9	1.5	2.8
Total Mid-Atlantic Area	16.7	17.5	30.0	21.8	20.9	14.9	20.3
Rest of the United States	21.1	22.2	20.0	27.4	11.8	38.7	23.5
England	10.0	4.5	7.1	0.7	6.6	3.0	4.7
Rest of Europe	3.3	10.3	2.9	7.3	3.9	1.5	5.0
Rest of the world	1.7	1.3	4.3	5.9	2.5	6.0	3.6