

DARTMOUTH COLLEGE
Department of Economics

Economics 46
Topics in Monetary Economics and Finance

Professor Samwick
Winter 2005

Office Hours:

My office is 322 Rockefeller. My regular office hours are Monday and Wednesday afternoons from 2:30 – 4:30 p.m. Note that on some occasions, my work at the Rockefeller Center may require these office hours to be rescheduled. Please verify office hours each week at www.dartmouth.edu/~blackboard.

Course Description:

Economics 46 is a seminar course that provides an overview of major developments in monetary economics and finance over the last two decades and offers an in-depth look at selected aspects of financial markets and institutions. The objective of the course is to enable the student to understand the academic literature in finance and to produce original research using financial data.

Prerequisites: Economics 20, 22, and 36

Readings:

All of the readings for this class are available directly on the Internet from any computer on campus. Most class periods will consist of critical discussions of the economic theory and evidence in the assigned papers. I will lead some class discussions, but students will lead most of them on a rotating basis. Other classes will be sessions on econometrics and using the Internet to obtain financial data.

Course Requirements and Grading:

Research Papers,	60% (Of which, an early research project may comprise up to 1/3)
Class Participation,	40%

The research paper is on a topic of the student's choice and has a maximum length of 15 pages. The first draft of the paper must be handed in by **Friday, February 25** and presented to the class during the following week. The order for presentations will be determined through a lottery. The final draft of the paper is due by **Wednesday, March 9**. A three-page research proposal for the paper must be handed in by **Wednesday, January 26**. Further details on the requirements for the paper, presentation, and proposal will be discussed as the class progresses. The early research project is a microcosm of the research paper on a topic of my choosing, due early in the term (Part I on **Wednesday, January 12**; Part II on **Wednesday, January 19**).

The remainder of the course grade is based on presentations and participation in classroom discussions. Each day that a paper is being presented, students must submit critiques of the assigned readings according to a template posted on the course web page. Handwritten critiques, or critiques submitted after the relevant class, will not be accepted. Each student will also give at least one class presentation of the assigned papers, generally as part of a team. The critiques and paper presentation, plus general

contributions to class discussion, comprise the class participation part of the grade. Students should meet with me in scheduled office hours several days prior to their presentations to review the assigned paper.

Additional Information:

Class Meetings: Silsby 310, MWF 8:45 a.m. – 9:50 a.m. or 10:00 a.m. – 11:05 a.m. X-period meetings are denoted by * on the Course Outline. Students are expected to attend the specific section for which they are enrolled.

Class Materials: Course materials are accessible to students at www.dartmouth.edu/~blackboard.

Honor Principle: Students are expected to follow the College's guidelines for the proper attribution of sources in the conduct of their own research. While offering assistance to fellow classmates is encouraged, all written assignments are expected to reflect each student's own individual work.

Equal Access: Students with learning, physical, or psychiatric disabilities who may need disability-related classroom accommodations are encouraged to make an appointment as soon as possible. The Academic Skills Center will be asked to verify that the student is approved for these services. All discussions will remain confidential, although the Student Disabilities Coordinator may be consulted to discuss appropriate implementation.

Procrastination and Distraction:

Completing the term paper requirement for this course is likely to be a very different experience from all of your prior academic activities at Dartmouth. This term paper requires both an original idea and an econometric implementation of that idea. Most students have no experience with the latter, and so it is a skill that must be practiced and learned. This is not a paper that can be successfully completed by doing all of the work at the end of the term. It will be painfully obvious, and not likely successful, if this approach is taken.

Senior year distractions provide some unique challenges in Economics 46. I am sympathetic to the pressure they place on my students to miss class frequently and with little notice. I have designed the course to be as accommodating as possible on a day-to-day basis. However, student performance in this course is based in large part on the term paper and presentations. No amount of distraction by other interesting senior year pursuits serves as a substitute for the quality of the term paper.

If you are concerned about either of these issues, then you should see me immediately, so that we can work together to make your experience in Economics 46 a rewarding one.

Course Outline:

I) Introductory Topics

[W 01/05]

Cochrane, John H., “New Facts in Finance,” *Economic Perspectives*, Vol. 23 (3rd Quarter), Federal Reserve Bank of Chicago, 1999: 36-58.

[http://www.chicagofed.org/publications/economicperspectives/1999/ep3Q99_3.pdf]

[Th 01/06*]

Continued discussion of “New Facts in Finance.”

[Th 01/06*] Early Research Project Assigned

[M 01/10]

(Read this overview.) Shleifer, Andrei and Lawrence H. Summers, “The Noise Trader Approach to Finance,” *Journal of Economic Perspectives*, Vol. 4, No. 2 (Spring 1990): 19-33.

[<http://www.jstor.org>]

(This more technical article is optional.) De Long, J. Bradford, Andrei Shleifer, Lawrence H. Summers, and Robert J. Waldmann, “Noise Trader Risk in Financial Markets,” *Journal of Political Economy*, Vol. 98, No. 4 (August 1990): 703-738. [<http://www.jstor.org>]

[W 01/12]

Bikhchandani, Sushil and Sunil Sharma, “Herd Behavior in Financial Markets: A Review,” IMF Working Paper 00/48, March 2000. [http://papers.ssrn.com/sol3/papers.cfm?abstract_id=228343]

[W 01/12] Early Research Project Part I Due

[Th 01/13*]

Ritter, Jay R. and Ivo Welch “A Review of IPO Activity, Pricing, and Allocations,” *Journal of Finance* Vol. 57, No. 4 (August 2002): 1795-1828. [<http://www.blackwell-synergy.com>]

[F 01/14]

Carhart, Mark M. “On Persistence in Mutual Fund Performance,” *Journal of Finance*, Vol. 52, No. 1 (March 1997): 57-82. [<http://www.jstor.org>]

II) Data and Econometrics

[W 01/19] Data Meeting at Berry Instructional Center in Carson Hall

[W 01/19] Early Research Project Part II Due

[Th 01/20] Data Meeting at Berry Instructional Center in Carson Hall*

[F 01/21] Data Meeting at Berry Instructional Center in Carson Hall

III) Noise Trading and Sentiment

[M 01/24]

Lee, Charles, Andrei Shleifer, and Richard Thaler, "Investor Sentiment and the Closed-End Fund Puzzle," *Journal of Finance*, Vol. 46, No. 1 (March 1991): 75-109. [<http://www.jstor.org>]

[W 01/26]

Elton, Edwin J., Martin J. Gruber, and Jeffrey A. Busse, "Do Investors Care About Sentiment?" *Journal of Business*, Vol. 71, No. 4 (October 1998): 477-500. [<http://www.jstor.org>]

[W 01/26] 3-page Term Paper Proposals Due in Class

[F 01/28]

Hong, Harrison, Terrence Lim, and Jeremy C. Stein, "Bad News Travels Slowly: Size, Analyst Coverage, and the Profitability of Momentum Strategies," *Journal of Finance*, Vol. 55, No. 1 (February 2000): 265-295. [<http://www.jstor.org>]

[M 01/31]

Odean, Terrance, "Are Investors Reluctant to Realize Their Losses?" *Journal of Finance*, Vol. 53, No. 5 (October 1998): 1775-1798. [<http://www.jstor.org>]

IV) Initial Public Offerings & Internet Valuations

[W 02/02]

Brav, Alon and Paul A. Gompers, "Myth or Reality? The Long-Run Underperformance of Initial Public Offerings: Evidence From Venture and Nonventure Capital-Backed Companies," *Journal of Finance*, Vol. 52 No. 4 (December 1997): 1791-1821. [<http://www.jstor.org>]

[Th 02/03]*

Loughran, Tim and Jay R. Ritter, "Why Don't Issuers Get Upset About Leaving Money on the Table in IPOs?" *Review of Financial Studies*, Vol. 15, No. 2 (Special 2002): 413-444.
[\[http://rfs.oupjournals.org/content/vol15/issue2/\]](http://rfs.oupjournals.org/content/vol15/issue2/)

[M 02/07]

Demers, Elizabeth and Katharina Lewellen, "The Marketing Role of IPOs: Evidence from Internet Stocks," *Journal of Financial Economics*, Vol. 68, No. 3 (June 2003): 413-437.
[\[http://www.sciencedirect.com\]](http://www.sciencedirect.com)

[W 02/09]

Ofek, Eli and Matthew Richardson, "Dotcom Mania: The Rise and Fall of Internet Stock Prices," *Journal of Finance*, Vol. 58, No. 3 (June 2003): 1113-1137. [\[http://www.blackwell-synergy.com\]](http://www.blackwell-synergy.com)

V) Corporate Finance and Investment

[M 02/14]

La Porta, Rafael, Florencio Lopez-de-Silanes, Andrei Shleifer, and Robert Vishny, "Legal Determinants of External Finance," *Journal of Finance*, Vol. 52, No. 3 (July 1997): 1131-1150.
[\[http://www.jstor.org\]](http://www.jstor.org)

[W 02/16]

Lamont, Owen. "Cash Flow and Investment: Evidence from Internal Capital Markets," *Journal of Finance*, Vol. 52, No. 1 (March 1997). [\[http://www.jstor.org\]](http://www.jstor.org)

[F 02/18]

Chevalier, Judith A. "What Do We Know About Cross-subsidization? Evidence from Merging Firms," *Advances in Economic Analysis & Policy*, Vol. 4, No. 1 (2004): Article 3.
[\[http://www.bepress.com/bejeap/advances/vol4/iss1/art3\]](http://www.bepress.com/bejeap/advances/vol4/iss1/art3)

VI) Empirical Tests of Herd Behavior

[M 02/21]

Dennis, Patrick and Deon Strickland. "Who Blinks in Volatile Markets, Individuals or Institutions?" *Journal of Finance*, Vol. 57, No. 5 (October 2002): 1923-1950. [\[http://www.blackwell-synergy.com\]](http://www.blackwell-synergy.com)

[W 02/23]

Graham, John R. "Herding Among Investment Newsletters," *Journal of Finance*, Vol. 54, No. 1 (February 1999): 237-268. [<http://www.jstor.org>]

VIII) Class Wrap-Up

[F 02/25] FIRST DRAFTS OF RESEARCH PAPERS DUE IN MY OFFICE BY THE END OF THE CLASS PERIOD. LOTTERY HELD TO DETERMINE ORDER OF CLASS PRESENTATIONS

[M 02/28] FIRST DRAFTS BEGIN TO BE AVAILABLE (BASED ON THE ORDER OF CLASS PRESENTATIONS); EXTRA OFFICE HOURS DURING THE CLASS PERIODS

[W 03/02][Th 03/03*][F 03/04] [M 03/07] TERM PAPER PRESENTATIONS IN CLASS.

[W 03/09] FINAL DRAFTS OF RESEARCH PAPERS DUE IN MY OFFICE BY 11:05 a.m.