Last Edited: August 26, 2019

Masterclass Title:

Intermediary Asset Pricing: Theory and Evidence

Course Coordinator

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Course Venue

University of Melbourne, Room TBD

Course Description

This course provides an introduction to the growing literature on intermediary asset pricing (IAP). This research program has grown rapidly since the global financial crisis, and it posits an important role for financial intermediaries (and financial intermediation) in both asset price determination and in the generation and propagation of macroeconomic shocks. The first three days of the course will present prominent theoretical models while the last three days will examine the empirical evidence for these models.

Course Prerequisite Knowledge

Students should have a good understanding of the materials covered in the first year doctoral courses in microeconomics, macroeconomics, and econometrics. I will provide a brief review of the standard approach to asset pricing, but students should have a prior acquaintance with this material at the level of Duffie (2001) and/or Cochrane (2005) and/or Back (2017).

Assessment

The assessment is based on the following deliverables:

1. A "referee report" on one paper from the list of "theory" papers. Due by class time on Thursday morning, October 3.

2. A "referee report" on one paper from the list of "empirical" papers. Due by 5:00 PM on Saturday morning, October 5.

3. A research proposal – not to exceed two single-spaced pages. Due by 5:00 PM on Saturday morning, October 5.

I will provide detailed instructions in class for the structure of both the reports and the proposal. All submitted material is to be completed individually, although I encourage collaboration in developing it.

FIRN Course Grading Policy

A standardized grading system has been implemented across all FIRN-endorsed Ph.D. courses and applies to all Ph.D. students undertaking the course. Course coordinators are asked to calculate final assessment grades using a percentage basis which can then be converted to a grading of 1 through 7 as follows:

7	85-100%	Pass with High Distinction/H1 Honours
6	75-84%	Pass with Distinction/H2 Honours
5	65-74%	Pass with Credit/H3 Honours
4	50-64%	Weak Pass
3	less than 50%	Did Not Pass/Fail
2		Did not complete all assessments
1		Did not complete the course

FIRN Statement on Plagiarism[1]

Plagiarism is a broad term referring to the practice of appropriating someone else's ideas or work and presenting them as your own without acknowledgement. Plagiarism is literary or intellectual theft. It can take a number of forms including:

- Copying the work of another student, whether that student is from the same class, from an earlier year of the same course, or from another tertiary institution altogether;

- copying any section, no matter how brief, from a book, journal, article or other written source, without duly acknowledging it as a quotation;

- copying any map, diagram or table of figures without duly acknowledging the source;

[1] This section was taken, verbatim, from the syllabus for "Dynamic Corporate Finance Theory: Methods and Topics" by Professor Nathalie Moyen.

- paraphrasing or otherwise using the ideas of another author without duly acknowledging the source.

Whatever the form, plagiarism is unacceptable both academically and professionally. By plagiarising you are both stealing the work of another person and cheating by representing it as your own. Any instances of plagiarism can therefore be expected to draw severe penalties.

Cheating means to defraud or swindle. Students who seek to gain an advantage by unfair means such as copying another student's work, or in any way misleading a lecturer about their knowledge or ability or the amount of work they have done, are guilty of cheating. Students who condone plagiarism by allowing their work to be copied will also be subject to sever disciplinary action.

Tentative Course Schedule

Each of our class meeting days will be divided into four 75 minute sessions with breaks built in for discussion and lunch. The structure of each meeting day is:

	Session Type	**Time**
#1	Lecture	9:00 AM to 10:15 AM
		Break
#2	Office Hours	10:45 AM to 12:00 PM
		Lunch
#3	Lecture	1:30 PM to 2:45 PM
		Break
#4	Office Hours	3:15 PM to 4:30 PM

The specific content of each day is:

Lecture	**Lecture Topic**	**Reading**
	Sunday, 9/29	
1	A Review of Standard Asset Pricing Theory	None
2	Precursors to Intermediary Asset Pricing	Allen (2001) and Duffie (2010)
	Monday, 9/30	
1	Capital and Crises	He and Krishnamurthy (2012)
2	Intermediary Asset Pricing Theory	He and Krishnamurthy (2013)
	Tuesday, 10/01	
1	Macro Models with Frictions (I)	Brunnermeier and Pedersen (2009)
2	Macro Models with Frictions (II)	Brunnermeier and Sannikov (2014)
	Thursday, 10/03	
1	The TIPS-Treasury Bond Puzzle	Fleckenstein et al (2014)
2	Frictions and Mortgage-Backed Securities	Gabaix, et al (2007)
	Friday, 10/04	
1	Financial Frictions and Life Insurance	Koijen and Yogo (2015)
2	IAP: The Cross-Section of Asset Returns	Adrian, Etula, and Muir (2014)
	Saturday, 10/05	
1	IAP: New Evidence from Many Markets	He, Kelly, and Manela (2017)
2	Measuring the Cost of Balance Sheet Constraints	Fleckenstein and Longstaff (2018)

Required Readings:

1. Adrian, T., E. Etula, and T. Muir, 2014, "Financial Intermediaries and the Cross-Section of Asset Returns," **Journal of Finance, 69(6)**, pages 2557-2596.

2. Allen, F., 2001, "Do Financial Institutions Matter?" **Journal of Finance, 56(4)**, pages 1165-1175.

3. Brunnermeier, M. K., and L. H. Pedersen, 2009, "Market Liquidity and Funding Liquidity," **Review of Financial Studies, 22(6)**, pages 2201-2238.

4. Brunnermeier, M. K., and Y. Sannikov, 2014, "A Macroeconomic Model with a Financial Sector," **American Economic Review, 104(2)**, pages 349-421.

5. Duffie, D., 2010, "Asset Pricing Dynamics with Slow-Moving Capital," **Journal of Finance, 65(4)**, pages 1237-1267.

6. Fleckenstein, M., and F. A. Longstaff, 2018, "Shadow Funding Costs: Measuring the Cost of Balance Sheet Constraints," **Working Paper**, Duke University and UCLA.

7. Fleckenstein, M., F. A. Longstaff, and H. Lustig, 2014, "The TIPS-Treasury Bond Puzzle," **Journal of Finance, 69(5)**, pages 2151-2197.

8. Gabaix, X., A. Krishnamurthy, and O. Vigneron, 2007, "Limits of Arbitrage: Theory and Evidence from the Mortgage-Backed Securities Market," **Journal of Finance, 62**, pages 557-595.

9. He, Z., B. Kelly, and A. Manela, 2017, "Intermediary Asset Pricing: New Evidence from Many Asset Classes," **Journal of Financial Economics, 126**, pages 1-35.

10. He, Z., and A. Krishnamurthy, 2012, "A Model of Capital and Crises," **Review of Economics Studies, 79(2)**, pages 735-777.

11. He, Z., and A. Krishnamurthy, 2013, "Intermediary Asset Pricing," **American Economic Review, 103(2)**, pages 732-770.

12. Koijen, R.S.J., ajd M. Yogo, 2015, "The Cost of Financial Frictions for Life Insurers," **American Economic Review, 105**, pages 445-475.

Additional Readings (Incomplete):

1. Brunnermeier, M. K., T. Eisenbach, and Y. Sannikov, 2013, "Macroeconomics with Financial Frictions: A Survey," in Daron Acemoglu, Manuel Arellano and Eddie Dekel (eds.), **Advances in Economics and Econometrics, Tenth World Congress of the Econometric Society, Vol. II: Applied Economics**, Cambridge University Press, New York, pp. 4-94.