

Suggested Topics and Readings for Term Projects

1. Realized Volatility and Volatility Premium

- Aït-Sahalia, Y. (2004), “Disentangling Volatility from Jumps,” *Journal of Financial Economics*, 74, 487-528.
- Andersen, T. G., T. Bollerslev, F. X. Diebold, and P. Labys (2003), “Modeling and Forecasting Realized Volatility,” *Econometrica*, 71, 579-625.
- Andersen, T. G., T. Bollerslev, and F. X. Diebold (2007), “Roughing It Up: Including Jump Components in the Measurement, Modeling, and Forecasting of Return Volatility,” *Review of Economics and Statistics*, 89, 701-720.
- Barndorff-Nielsen, O. E., and N. Shephard (2002), “Estimating Quadratic Variation Using Realized Variance,” *Journal of Applied Econometrics*, 17, 457-478.
- Barndorff-Nielsen, O. E., and N. Shephard (2004), “Power and Bipower Variation with Stochastic Volatility and Jumps,” *Journal of Financial Econometrics*, 2, 1-37.
- Bollerslev, T., G. Tauchen and H. Zhou (2009), “Expected Stock Returns and Variance Risk Premia,” *Review of Financial Studies*, 22, 4463-4492.

2. Option Pricing with Stochastic Volatility and Jumps

- Bakshi, G., Cao, C., and Z. Chen (1997), “Empirical Performance of Alternative Option Pricing Models,” *Journal of Finance*, 52, 2003-2049.
- Chernov, M., and E. Ghysels, 2000, “A Study Towards a Unified Approach to the Joint Estimation of Objective and Risk Neutral Measures for the Purpose of Option Valuation,” *Journal of Financial Economics*, 56, 407-458.
- Christoffersen, P. F., R. Elkamhi, B. Feunou, and K. Jacobs (2010), “Option Valuation with Conditional Heteroskedasticity and Non-Normality,” *Review of Financial Studies*, 23, 2139-2183.
- Garcia, R., E. Ghysels, and E. Renault, 2010, *The Econometrics of Option Pricing*, In: *Handbook of Financial Econometrics*, Y. Aït-Sahalia and L. P. Hansen, eds., Elsevier-North Holland, Amsterdam.
- Heston, S. L., (1993), “A Closed-Form Solution for Options with Stochastic Volatility with Applications to Bond and Currency Options,” *Review of Financial Studies* 6, 327-343.

3. Continuous-Time Models of Spot Interest Rate, Bond Pricing and Term Structure of Interest Rates

- Aït-Sahalia, Y. (1996) “Testing Continuous-Time Models of the Spot Interest Rate,” *Review of Financial Studies*, 9, 385–426.
- Backus, D., S. Foresi, and C. Telmer (2000) “Discrete-Time Models of Bond Pricing,” In: N. Jegadeesh and B. Tuckman, eds., *Advanced Fixed Income Valuation Tools*, New York: Wiley.
- Chan, K. C., G. A. Karolyi, F. A. Longstaff, and A. B. Sanders (1992), “An Empirical Comparison of Alternative Models of the Short-Term Interest Rate,” *Journal of Finance*, 47, 1209-1227
- Cochrane, J. H., and M. Piazzesi (2005) “Bond Risk Premia,” *American Economic Review*, 95, 138–160.
- Dai, Q., and K. Singleton (2000) “Specification Analysis of Affine Term Structure Models,” *Journal of Finance*, 55, 1943–1978.
- Ludvigson, S., and S. Ng (2009), “Macro Factors in Bond Risk Premia,” *The Review of Financial Studies*, 22, 5027-5067.
- Piazzesi, M. (2010), “Affine Term Structure Models,” In: *Handbook of Financial Econometrics*, Y. Aït-Sahalia and L. P. Hansen, eds., Elsevier-North Holland, Amsterdam.
- Stanton, R. (1997) “A Nonparametric Model of Term Structure Dynamics and the Market Price of Interest Rate Risk.” *Journal of Finance* 52, 1973–2002.

4. Modeling the Dynamics of Commodity Prices and Valuation of Commodity Contingent Claims

- Casassus, J., and P. Collin-Dufresne (2005), “Stochastic Convenience Yield Implied from Commodity Futures and Interest Rates,” *Journal of Finance*, 60, 2283-2331.
- Deaton, A., and G. Laroque (1992), “On the Behaviour of Commodity Prices,” *Review of Economic Studies*, 59, 1-23.
- Gorton, G., F. Hayashi, and K. G. Rouwenhorst (2006), “The Fundamentals of Commodity Futures Returns,” NBER Working Paper No. 13249.
- Hong, H., and M. Yogo (2009), “Digging into Commodities,” Working paper, Princeton University.

- Pindyck, R. (1993), “The Present Value Model of Rational Commodity Pricing,” *Journal of Political Economy* 103, 511-530.
- Schwartz, E. S. (1997), “The Stochastic Behavior of Commodity Prices: Implications for Valuation and Hedging,” *Journal of Finance*, 52, 923-973

5. Empirical Asset Pricing Models

- Burnside, C. (2010), “Identification and Inference in Linear Stochastic Discount Factor Models,” NBER Working Paper No. 16634.
- Hansen, L., and R. Jagannathan, 1997. Assessing specification errors in stochastic discount factor models,” *Journal of Finance* 52, 557–590.
- Jagannathan, R., and Z. Wang, (2002), “Empirical Evaluation of Asset Pricing Models: A Comparison of the SDF and Beta Methods,” *Journal of Finance* 57, 2337–2367.
- Kan, R., and C. Robotti (2008), “Specification Tests of Asset Pricing Models Using Excess Returns,” *Journal of Empirical Finance*, 15, 816-838.
- Kan, R., and C. Robotti (2009), “Model Comparison Using the Hansen-Jagannathan Distance,” *Review of Financial Studies*, 22, 3449-3490

6. Predictability of Stock Returns

- Campbell, J. Y., and S. B. Thompson (2008), “Predicting Excess Stock Returns Out of Sample: Can Anything Beat the Historical Average?,” *Review of Financial Studies*, 21, 1509-1531.
- Cochrane, J. H. (2008), “The Dog That Did Not Bark: A Defense of Return Predictability,” *Review of Financial Studies*,” 21, 1533-1575.
- Ludvigson, S., and S. Ng (2007), “The Empirical Risk-Return Tradeoff: A Factor Analysis Approach,” *The Journal of Financial Economics*, 2007, 83:171-222.
- Welch, I., and A. Goyal (2008), “A Comprehensive Look at The Empirical Performance of Equity Premium Prediction,” *Review of Financial Studies*, 21, 1455-1508.