**EMPIRICAL FINANCE**
**Second part**
**READING LIST**
Fall 1999

Required readings for the exam are marked in boldface:

## CHAPTER 1.
## Basic facts in empirical finance.

Admati, A. y P. Pfleiderer (1988), "A Theory of Intraday Patterns: Volume and Price Variability," The Review of Financial Studies, 1, 3-40.

Cochrane, J. (1999), “New facts in empirical finance,” NBER Working Paper 7169, June 1999.

Jain, P. y G. Joh (1988), "The Dependence Between Hourly Prices and Trading Volume," Journal of Financial and Quantitative Analysis, 23, 269-284.

**Karpoff, J. (1987), “The relationship between price changes and trading volume: A survey,” Journal of Financial and Quantitative Analysis, 22, 109-126. Some financial microstructure basic facts.**

**Lamoureaux, C. G. y W. D. Lastrapes (1990), "Heteroskedasticity in Stock Return Data: Volume versus GARCH Effects,"** ***Journal of Finance*****, 45, 221-229.**

Montalvo, J.G. (1999), “Volume versus GARCH effects reconsidered: an application to the Spanish Government Bond Future market,” Journal of Applied Financial Economics

**Tauchen, G. and M. Pitts (1983), “The price-volume relationship on speculative markets,” Econometrica, 51, 485-505. Introduction to the mixture distribution model.**

## CHAPTER 2.
## The ordered probit model.

**Hausman, Lo and MacKinlay (1992), “An ordered probit analysis of transaction stock prices”, Journal of Financial Economics, 31, 319-179.**

Montalvo, J.G. (1998), “Liquidity and market makers: an analysis with ultra-high frequency data,” IVIE Working Paper 98-16.

**CHAPTER 3.**
**GMM applications to empirical finance**.

Andersen, T. (1996), “Return Volatility and Trading Volume: an information flow interpretation of stochastic volatility,” Journal of Finance, 51, 169-204.

**Chan, K., Karolyi, A., Longstaff, F. and A. Sanders (1992), “An empirical comparison of alternative models of short-term interest rates,” Journal of Finance, 47, 3, 1209-1226.**

Foster, F. and S. Viswanathan (1995), “Can speculative trading explain the volume-volatility relation?,” Journal of Business and Economic Statistics, 13, 4, 379396.

Hamilton, J. (1994), Time series analysis, Princeton University Press, chapter on GMM.

**Johnston, J. and DiNardo (1997), Econometric Methods, chapter 10.**

Montalvo, J. G. (1998), “An analysis of the short term interest rates in Spain,” Revista de Economía Aplicada.

Richardson, M. and T. Smith (1994), “A direct test of the mixture of distribution hypothesis: measuring the daily flow of information,” Journal of Financial and Quantitative Analysis, 29, 1, 101-116.

**Smith, T. (1994), “Econometrics of financial models and market microstructure effects,” Journal of Financial and Quantitative Analysis, 29, 519-540.**

**CHAPTER 4.**
**The autoregressive conditional duration model.**

**Engle, R. and J. Russell (1998), “Autoregressive conditional duration model: a new model for irregularly spaced transaction data,” Econometrica, 66, 5, 1127-1162.**

Lancaster, T. (1990), The econometric analysis of transition data, Cambridge University Press. It includes an introduction to the basic duration models.

**CHAPTER 5.**
**The decomposition of the bid-ask spread: VAR versus GMM**

Copeland, T. and D. Galai (1983), "Information effects on the bid-ask spread," Journal of Finance, 38, 1457-1469.

Glosten, L. and L. Harris (1988), "Estimating the components of the bid-ask spread," Journal of Financial Economics, 21, 123-142.

**Hamilton, J. (1994), Time series analysis, Princeton University Press, chapter on VAR**.

**Hasbrouck, J. (1991), "Measuring the information content of stock trades," Journal of Finance, 46, 1, 179-207.**

**Huang, R. and H. Stoll (1997), "The components of the bid-ask spread: a general approach," The Review of Financial Studies, 10, 4, 995-1034.**

Montalvo, J. and E. Shioji (1997), "Monetary policy transmission in the EMS: a VAR approach," IVIE working paper.

O'Hara, M. (1995), Market microstructure theory, Blackwell Business. It introduces the three basic theories.

Roll, R. (1994), "A simple implicit measure of the effect of bid-ask spread in an efficient market," Journal of Finance, 39, 1127-1139.

You can also use the corresponding chapters of **Campbell, Lo and MacKinlay (1997)** for the topics that are in common.