COURSE INFORMATION

GSB Honor Code: This course requires students to follow the GSB Honor Code and Standards of Scholarship in examination and homework assignments. The GSB Honor Code requires students to sign the following pledge, “I pledge my honor that I have not violated the Honor Code during this examination,” on every examination.

Course Objectives:

- To learn some basic knowledge of financial time series data, including high-frequency data
- To study simple models and methods for analysis of financial time series (both for mean and volatility evolution)
- To assess market risk, credit risk, and to study methods for calculating Value at Risk (VaR)
- To understand proper use and limits of econometric methods in finance.


References:


Web: All data sets of the textbook are posted on Web at http://faculty.chicagobooth.edu/ruey.tsay/teaching/fts2/
Handouts and assignments are posted on Web at http://faculty.chicagobooth.edu/ruey.tsay/teaching/bs41202/sp2009/
(or click on the course name on my teaching web page)
Students are encouraged to check the course Web site regularly for information concerning the course.

Office hour:
Thursdays: 10:30 am to 11:30 am or by appointment.
My phone number (773)702-6750, My office: HPC 455
Fax number: 773-702-0458
E-mail: ruey.tsay@chicagobooth.edu
(the easiest way to make contact with me)
Teaching Assistant:
Mr. Paco Vazquez-Grande
E-mail: fvazque1@chicagobooth.edu
TA will hold weekly review sessions. He will also help you with software packages and answer your questions.

Grading:
In-class Exam (35%), Final Exam (35%), and homework assignments (30%).

Computing and software:
Data analysis is an integral part of the course. The main software package used is R. Other packages such as S-Plus and Matlab can also be used. R is a free software. Instructions for install R on your PC are available on course web page.
Instructions for using the R package will be given and discussed. No prior knowledge of the package is required.

Special notes:
• R is free at http://www.r-project.org (with FinTS and fSeries package. Also, R needs the Ox package with G@RCH to perform more flexible GARCH estimation).
• There are six HW assignments. The best five scores are used to compute the final grade.
• Homework is due before class on the due day. No e-mail submission is accepted.
• No late homework assignments will be accepted; I plan to post solutions on the Web promptly.
• Students may discuss homework assignments, but every student must hand in his or her own solutions.
• In-class exam: Week 6, open book.
• Final exam in the examweek as scheduled.

Course Outline: All topics include data analysis and applications.
1. Returns and their empirical characteristics
2. Linear time series models and their applications
3. Volatility modeling via conditional heteroscedastic models
4. Nonlinear models, neural networks and their applications
5. High-frequency data analysis, realized volatility, and market microstructure
6. Continuous-time diffusion models and Ito’s Lemma
7. Value at Risk (VaR), stress test, peak over the threshold, expected loss, and quantiles.
8. Multivariate models, factor models, and their applications, if time permits.
9. Multivariate analysis of financial returns, including pair trading, if time permits.
10. Multivariate conditional heteroscedastic models, if time permits.
11. Markov Chain Monte Carlo methods and their applications, if time permits.