**Economics 8705** **Spring Semester 2024**
**Jan Werner**

# Financial Economics
# Reading List

## Textbook:

*Principles of Financial Economics* by Stephen F. LeRoy and Jan Werner, Cambridge University Press, 2nd Edition, 2014.

## Other Books:

*Asset Pricing and Portfolio Choice Theory* by Kerry Back, Oxford U Press, 2nd Ed, 2017.

*Information and Learning in Markets: The Impact of Market Microstructure* by Xavier Vives, Princeton Univeristy Press, 2008.

*Bayesian Nonparametrics* by J.K. Ghosh and R.V. Ramamoorthi, Springer Verlag, 2003.

## Dynamic Markets, Debt Constraints and Bubbles

Werner, J., "Rational Asset Pricing Bubbles and Debt Constraints," *Journal of Mathematical Economics*, **53C** pp. 145-152, 2014.

Santos, M., and M. Woodford, "Rational Asset Pricing Bubbles," *Econometrica*, **65**, (1997), 19–57.

Gilles, C. and S. LeRoy, "Bubbles and charges," *International Economic Review,* 33, 323 - 339, 1992.

Hellwig, Ch and G. Lorenzoni, "Bubbles and Self-Enforcing Debt," *Econometrica*, vol 77, pg 1137-64, 2009.

## "Exotic" Preferences in Static and Dynamic Models

Tversky, A. and D. Kahneman: "Advances in prospect theory: Cumulative representation of uncertainty," *Journal of Risk and Uncertainty*, **5**(4), 297-323, (1992).

Wakker, P.: *Prospect theory: For risk and ambiguity*, Cambridge University Press, (2010).

L. G. Epstein and S. Zin (1989), "Substitution, Risk Aversion, and the Temporal Behavior of Consumption and Asset Returns: A Theoretical Framework," *Econometrica*, 57, 937-969.

Epstein, L. and M. Schneider, "Recursive Multiple Priors," *Journal of Economic Theory* 113, (2003), 1-31.

Klibanoff, P., Marinacci M. and and S. Mukerji, "Recursive Smooth Ambiguity Preferences," *Journal of Economic Theory* 144, (2009), 1848-1892.

Maccheroni, F, Marinacci M. and A. Rustichini, "Dynamic Variational Preferences," *Journal of Economic Theory*, 128(1), 4-44, 2006.

Strzalecki, T. "Temporal Resolution of Uncertainty and Recursive Models of Ambiguity Aversion" *Econometrica*, **81**, 2013.

Kochov, A., "Time and No Lotteries: An Axiomatization of Maxmin Expected Utility," *Econometrica*, **83**, (2015), 239–262.

Borovicka J. and J. Stachurski, "Necessary and Sufficient Conditions for Existence and Uniqueness of Recursive Utilities," *Journal of Finance,* vol 75(3), 2020.

Werner, J. "Ordinal Representations and Properties of Recursive Utilities," working paper, 2023.

**Heterogeneous Beliefs, Learning, and Speculation**

Blume, L. and D. Easley, "If You're So Smart, Why Aren't You Rich? Belief Selection in Complete and Incomplete Markets," *Econometrica*, **74**, (2006), 929–.

Sandroni, A. "Do Markets Favor Agents Able to Make Accurate Predictions?", *Econometrica*, **68**, (2000), 1303–.

Harrison J. M. and D. Kreps, "Speculative Investor Behavior in a Stock Market with heterogeneous Expectations," *Quarterly Journal of Economics*, (1978), 323–336.

Morris, S. (1996). Speculative investor behavior and learning. *The Quarterly Journal of Economics* 111 (4).

Scheinkman, J. A. and W. Xiong (2003). Overconfidence and speculative bubbles. Journal of Political Economy 111 (6).

Hong, H., J. Scheinkman and W. Xiong (2006). "Asset Float and Speculative Bubbles,". Journal of Finance, 41 (3).

Liu, F. and J. R. Conlon, The Simplest Rational Greater-Fool Bubble Model, *Journal of Economic Theory* 175 (2018), 3865.

Werner, J. "Speculative Trade under Ambiguity," *Journal of Economic Theory*, 2022.

Werner, J. "Heterogeneous Beliefs, Speculative Bubbles and Learning," working paper, 2023.

**Asymmetric Information and Rational Expectations**

Radner, R. (1979) "Rational Expectations Equilibrium: Generic Existence and the Information Revealed by Prices" *Econometrica*, **47**, 665–78.

Admati, A. (1985) "A Noisy Rational Expectations Equilibrium for Multi-Asset Securities Markets," *Econometrica*, **53**, 629–57.

Hellwig, M. (1980), "On the Aggregation of Information in Competitive Markets," *Journal of Economic Theory*, **22**, 477–498.

Milgrom, P. and N. Stokey (1982), "Information, Trade and Common Knowledge", *Journal of Economic Theory*, **26**, 17–27.

Ozsoylev H. and J. Werner (2008), "Liquidity and Asset Prices in Rational Expectations Equilibrium with Ambiguous Information," *Economic Theory*, **48**, 469-491, 2011.

Breon-Drish, B. (2015), "On Existence and Uniqueness of Equilibrium in a Class of Noisy Rational Expectations Models," *Review of Economic Studies*, **82**, 868–921.

Ganguli J. and L. Yang, "Complementarities, Multiplicity, and Supply Information," *J. of European Economic Association*, 2009.

He, H. and J. Wang, "Differential Information and Dynamic Behavior of Stock Trading Volume," *Review of Financial Studies*, 1995, vol. 8, 919-72.

**Strategic Trading in Financial Markets**

Glosten, L. and P. Milgrom (1985), "Bid, Ask and Transaction Prices in a Specialist Market with Heterogeneously Informed Traders," *Journal of Financial Economics*, **14**, 71–100.

Kyle, A. (1985), "Continuous Auctions and Insider Trading," *Econometrica*, **53**, 1315–37.

Mendelson, H., and T. Tunca, "Strategic Trading, Liquidity,and Information Acquisition," *Review of Financial Studies*, 2004, vol. 17, 295-.

Caballe, J. and M. Krishnan (1994), "Imperfect Competition in a Multi-Security Market with Risk Neutrality," *Econometrica*, **62**, 695–704.

Lambert, N., M. Ostrovsky and M. Panov, "Strategic Trading in Informationally Complex Environments," *Econometrica*, Vol. 86(4), July 2018, pp. 11191157.

Ostrovsky, M. "Information Aggregation in Dynamic Markets with Strategic Traders," *Econometrica*, **80**, (2012), 2595–.

Park, A. and H. Sabourian, "Herding and Contrarian Behavior in Financial Markets," *Econometrica*, **79**, (2011), 973–.

**Over-The-Counter Markets**

Duffie, D., Garleanu, N. and L.H. Pedersen (2005), "Over-The-Counter Markets," *Econometrica*, **62**, 695–704.

Rubinstein, A. and A. Wolinsky, "Middleman," *Quarterly Journal of Economics*, (1987).

P-O. Weil, "The Search Theory of OTC Markets," *Annual Review of Economics*, 2020.

Uslu, S., "Pricing and Liquidity in Decentralized Asset Markets," *Econometrica*, **87**, (2019), 973–

Vayanos, D. and T. Wang, "Search and Endogenous Concentration of Liquidity in Asset Markets," *Journal of Economic Theory*, 2007, volume 136, 1, 66-104.

Glode, V. and Ch. Opp, "Asymmetric Information and Intermediation Chains," *American Economic Review* 106, (2016).

Farboodi, M., G. Jarosch, R. Shimer, "The Emergence of Market Structure," *The Review of Economic Studies*,90, 2023.