

**125.785**

**RESEARCH METHODS  
IN FINANCE**

**ADMINISTRATIVE GUIDE**

**November 2020 cohort  
(UEH-Massey Block)**

**Course Instructor:**

**Dr Jeff Wongchoti, Room BSW 2.06**

**Tel: (06) 350-5799 ext 84053, Email: [J.wongchoti@massey.ac.nz](mailto:J.wongchoti@massey.ac.nz)**

School of Economics and Finance  
Private Bag 11 222, Palmerston North  
Fax: (06)350-5651

This material is protected by copyright and has been copied by and solely for the educational purposes of the University under license. You may not sell, alter or further reproduce or distribute any part of this course pack/material to any other person. Where provided to you in electronic format, you may only print from it for your own private study and research. Failure to comply with the terms of this warning may expose you to legal action for copyright infringement and/or disciplinary action by the University.

## Message to Students

Welcome to 125.785 Research Methods in Economics & Finance. This is a Master level course designed to equip you with fundamental tools that get you ready to enter the exciting field of empirical finance. By definition, empirical research in finance seeks to test hypotheses based on theories in finance and with observed data. To lay the background which enables you to explore and conduct research, we first introduce to you the backbone of all empirical studies, the basics of “econometrics”. Econometrics is the techniques used to study the relations between variables. A few chapters from the prescribed textbook “Introductory Econometrics for Finance by Chris Brooks” serves this purpose well. They touch on the introductory level of regression analysis basics which are relatively easy to read and applied directly to financial research.

It is first worth noting that this course is not an “econometric class”, which is typically offered by Economics department. As a result, we DO NOT require students to be able to derive complex equations or prove. Our focus, on the other hand, is in the application/implication of basic regressions in research context. There are also specific procedures that are very common among financial researchers, such as the “Fama and Macbeth regressions (extensively used in Capital Asset Pricing studies)”, “Clustered standard errors (extensively used in Corporate Finance studies)” that are covered in this offering. These can be considered as the specific extension of econometrics, especially for finance area.

Importantly, on the practical side, we provide you the opportunity to get exposed to the formulations of financial research questions and identifying their contributions. This involves critically reading and discussing in class assigned research articles in finance/economics. It is especially important in giving you a boost or head-start for your further exploration in these areas in the future. Classic articles such as Jensen (1968), Fama and French (1992), and others will be discussed throughout the course. To the possible extent (allowed with the situation this year), students will also be introduced to some computer software that can be used in your future financial research. For the purpose of 125.785 course, we primarily use SAS, a powerful statistical software that is used intensively by researchers in the field. It allows us to manipulate huge dataset (especially important in financial research) and perform necessary statistical/regression analyses.

## Paper Prescription

This course provides a broad econometric and practical foundation from which students can understand and perform quality empirical research in economic and financial contexts.

## Learning Outcomes (L.O.):

Students who successfully complete this course should be able to:

1. Demonstrate knowledge of a range of research methods.
2. Apply a range of econometric methods to the analysis of empirical research data.
3. Process, manipulate, and evaluate empirical research.
4. Evaluate and employ statistical software package(s) for appropriate use in research.

## Paper prerequisites

Prior to taking 125.785 paper, students should have obtained the following prerequisites:

- 125.700 Managerial Finance paper or equivalent
- Reasonable skills on computer software -Microsoft Excel
- Statistics background (One could review Appendix 1 – A review of some fundamental mathematical and statistical concepts in Chris Brook's text if you wish to refresh your numerical background)

## Reading Material and Resources

### *Required textbook*

The required textbook for 125.785 Research Methods in Economics & Finance is:

- 1) Brooks, Chris, (2014), Introductory Econometrics for Finance (3<sup>rd</sup> edition), Cambridge.

### *Other required reading materials*

Chosen research articles (in order of appearances during the semester). Links or electronic copies will be made available through our FB group page.

## ***Recommended Additional Resources***

### **(a) Background Reading**

Students are advised to (not a must and will not include in the assessment or exam) keep abreast of on-going issues and topics in the world of financial/economic research by reading leading journals such as:

Journal of Finance  
Journal of Financial Economics  
Review of Financial Studies  
Journal of Financial and Quantitative analysis  
Review of Finance  
Financial Management  
Journal of Banking and Finance  
And others.

### **(b) 125.785 Research Methods in Economics & Finance Web Site**

This paper relies on the internet (Massey Stream) to create an "online learning environment". This will allow you to communicate and collaborate, through the internet, with others taking the paper and with instructors. The progress of the paper will be managed dynamically through the constant discussion among students and instructors. The lecture notes, assignment questions and more materials necessary will be supplied through either Facebook set-up group webpage or the UEH coordinator onsite in Ho Chi Minh City.

**The e-learning category of this paper is ‘required-essential’. The capacity to access internet is compulsory for all the students in the paper. Please contact the paper coordinator immediately if you have any problems to meet this requirement.**

You can access to the internet through your own home computer or through your place of employment (seek permission first if from work and see if there are access issues, e.g. firewall protection). Frequent checking and participating in the online discussion could be very important in your successful completion of this paper.

**It is your responsibility to check our Facebook Group webpage every week. Although participation or lack of participation will not be marked directly, any material supplied through either FB group or UEH coordinator could be included in examinations. Not checking these information sources and thus missing some information is not acceptable for negotiation on the mark lost in any assessment.**

Any feedback you can provide on the value of this service, both during the course informally as well as in the course paper evaluations, would be greatly appreciated.

It is worth noting that the online environment will help you do well in the course in the following ways:

- increased interaction with your peers, which research has shown can have a positive impact on learning.
- flexible teaching method in the progress, instructors have the channel to contact students whenever they want to deliver any new materials or correct any potential problem with existing material.
- regular participation in the discussion group, which helps increase motivation for finishing readings in a timely manner.
- increased exposure to the material, which will increase retention.

In order to make the most profitable use of the environment and discussions you should:

- access the online environment to check for messages and changes to content at least once per week.
- address any problems of an academic nature to the discussion group. We will regularly monitor the discussion and provide feedback on issues and answers to questions when necessary. Issues of a sensitive or personal nature should be addressed to our personal e-mail addresses.
- send an introductory message to the group. In this you may like to introduce yourself by name, let people know some of your background, why you are taking the course and what you are hoping to get out of it. This will serve as an "icebreaker". Feel free to welcome others who post their first messages too.
- discuss the course content, assessment and topics of interest as you go through the readings and study guide.
- be respectful of others' time, contributions, and opinions. Online discussions are regarded as similar to verbal communications in a group setting, so people should feel free to ask questions, sound out others about their ideas, and ask for help.

### **(c) Other Internet Resources**

There are a variety of online resources available to students via the internet, in addition to the class and publisher's web sites detailed above. Some of these sites are mentioned below.

#### **(I) SSRN working paper series**

*<http://www.ssrn.com>*

This website contains the working paper series posted by researchers worldwide.

**(d) Supplementary reading on SAS programming**

Boehmer, E., Broussard, JP., and Kallunki, JP., (2002), Using SAS in Financial Research, SAS.

The above is recommended for students who are keen to become a serious financial researcher in the near future. You can contact [saspress@sas.com](mailto:saspress@sas.com) for more details.

## **Computer software**

Throughout the semester, you will be required to work on assignments through the use of some statistical software: SAS 9.4 or e-views6 (as default) or any other software that works well for you.

***SAS 9.4 (or the version you can get access to at UEH or personally)***

The primary statistical software for this paper is SAS 9.4. As a 125.785 student at UEH, I have been informed that you are entitled to use SAS software in certain ways. Please contact UEH staffs for any inquiry.

***Eviews 6(?)***

The alternative software that you can use for assignments is eviews6. However, this is considered as the secondary software for this paper. There will be less focus on this software.

**Note:** *With the nature of purely online contact courses this time due to Covid-19 situation worldwide, there will be less focus/demand on software uses during this certain offering.*

## Course Outline\*

Module	Topic	Readings	Week
1 Natures of Financial Research	Topics, data, and journals in financial research (Setting the scene)	- Lecture notes - Brooks: Ch 1 - Assigned articles (Samples for discussions)	1,2,3
2 Regression Analyses	2.1 Regression concepts: Two-variable model	- Group presentations (Assignment 1 Part A = 10%)	4
	2.2 Multiple regression: CLRM violations and issues	- Brooks: Ch 3 - Assigned articles: Jensen (1968) and others - Handout: Choosing return series in financial research	5, 6,7
3 Special techniques in Financial Research	Special regression/ techniques in Finance	- Brooks: Ch 4 and 5 - Summary CLRM table - Rozeff (1982) and others	8,9,10,11
		- Fama and French (1992) - Handout: (1) The Fama and Macbeth procedure, (2) The three factor Fama and French model	(11),12
4 Summing Up	Preparing Mock research proposals (group) and Reviews	-Mock research proposal presentations (Assignment 1 Part B = 15%) - Past Final Exam reviews	13, (13.5)

## Grading and Evaluation

The paper grade will be determined as follows:

	<u>Weight</u>	<u>Due Date</u>
Assignments (L.O. 1 - 4)	60%	See page 11
Final examination (L.O. 1 – 2)	40%	TBA
	100%	

---

\* Preliminary. There may be subsequent changes if necessary.

**Passing the final examination is a necessary condition of passing the course.** The examinable material will comprise the entire syllabus (the final examination papers of two years will be available on FB group), and a hand-written one-sided A4 sheet is allowed for the examination. Further details will be supplied later in the semester via our FB group page.

## **Internal class time schedule:**

### **Lectures and Presentations:**

**Sundays 9 am to 12 noon** – HCM time zone

The first Sunday class is on 22<sup>nd</sup> November 2020. There will be no class for NZ Christmas/New Year holiday week. There will also be a two Sundays off break for Tet Holiday. Sundays to skip will be made known on our FB group page in advance.

### **Lecture notes/ Study guide:**

The lecture notes (which is also a study guide) will be posted on FB group at the beginning of the lecture week, if not before, in accordance with the schedule indicated in the 125.785 Course Outline.

## Assignments:

### I. Not-marked exercises:

These exercises are selected for your practice purpose only. They are not included in the assessment (and **not to be turned in for marking**). Nevertheless, they are crucial in understanding the context of our paper, which definitely would help with your exam preparation. The solutions to these questions will be posted on Stream during or at the end of each module.

<b>Module</b>	<b>Textbook Chapter(s)</b>	<b>End-of-Chapter/Review Questions</b>
1 Introduction to Finance Research	None	None
2 Regression Analyses and Techniques in Finance	Brooks's Ch 3 Brooks's Ch 4 Brooks's Ch 5	All questions except proofs, derivations, and e-views related
3 Special techniques in finance	None	None

## II. Marked assignments:

The assignments are designed for assessment purpose, composing 60% of your final grade. They will be hands-on exercises which require works on a statistical software package such as SAS and eviews to address particular assigned research tasks. Students will also be asked to evaluate and analyse numbers based on outputs. Some assignments can be about critically evaluate finance articles based on knowledge gained from 125.785 paper.

<b>Assignment Number</b>	<b>Learning outcomes</b>	<b>Total Score</b>	<b>Due Date</b>
1 part A (Group)	LOs 1 -Evaluating chosen/assigned research articles	10	4 <sup>th</sup> Sunday
1 part B (Individual)	LOs 1 to 4 -Empirical exercise on Two-variable Regression model	20	TBA
2 part A (Individual)	LOs 1 to 4 -Empirical exercise on Multiple Regression models	30 (altogether)	TBA
2 part B (Group)	Los 1 to 3 -Preparing a mock Research Proposal		

## Plagiarism Policy

Please take careful note of the Massey Business School plagiarism policy that is reproduced below.<sup>†</sup> Note that source attribution will not be required for the problem assignments only, as it is assumed that material will be used from the Brealey & Myers textbook.

### 8.2 Intellectual Honesty:

When students make direct use of, or quote the work of others, they are *required* to acknowledge the source in every instance.

Policies of the College of Business on source attribution and plagiarism are set out here in detail reflecting the importance of this matter. While some Departments may have slightly different means for dealing with plagiarism, the general policy of the College is as follows:

### 8.3 Plagiarism (a form of cheating): University and College Policies

The following extract on Plagiarism is from the Assessment and Examination Regulations in the 2000 Massey University Calendar:

**UNIVERSITY POLICIES**

13. Any candidate who is found guilty of any dishonest practice in connection with any examination or of any breach of any rules dealing with the conduct of examinations shall be liable to the penalties hereinafter provided. The candidate shall, before the meeting of the Academic Board at which it is proposed to deal with the complaint, be given reasonable notice in writing of the subject matter of the complaint. The candidate may state in writing an answer to the charge, and may, with the consent of the Academic Board, appear when the complaint is being determined. If the Academic Board finds the charge proved it may disqualify the candidate from sitting for any examinations for such period as it thinks fit and may, if the candidate has been credited with a pass in the examination in respect of which the charge arose, cancel such credit.

14. Copying or paraphrasing of another person's work, be it published or unpublished, without clearly acknowledging it, will be deemed to be dishonest. Any candidate found guilty of plagiarism will be liable to the penalties listed in Regulation 13.

---

<sup>†</sup> Adapted from the College of Business (1999), Information and Policy Handbook. Massey University, p.18-22.



Students should take particular note of the following:

### COLLEGE POLICIES

- (a) Plagiarism is not permitted.
- (b) Questions of suspected plagiarism will be immediately referred to the Head of Department for investigation.
- (c) Students suspected of plagiarism will have the opportunity to discuss the case with the Lecturer, Head of Department, and other relevant persons prior to any College action being taken or recommended.
- (d) Confirmed plagiarism will be dealt with severely. A penalty equal to the marks allotted to the work may be imposed. Depending on circumstances, a more severe penalty may be applied.

Written exercises, essays, reports, research studies, and papers submitted as part of course requirements whether to be graded or ungraded, must be either:

- (a) the original effort of the student, or
- (b) properly attributed by in-line citations.

#### 8.3.1 Definitions

For the context of this College Policy, the following definitions apply:

- (a) *'Original Effort of the Student'*: Work that the student has performed, created, devised or prepared without substantive assistance from another person or written source.

- It is acknowledged that very few ideas are truly original and that theories, concepts and philosophies are usually formed on the basis of prior reading or discussion. Where such ideas can be identified as to source, they should be cited. Such citations usually lend weight to student arguments.
- At times Lecturers will assign joint written projects or will waive the requirements for original work..... This policy does not apply to this type of assignment.

- (b) *'Source Attribution'* is:

A complete citation of where the original work appeared. This applies to quotations (which should be shown in inverted commas) as well as specific research evidence, statements and references.

- The general rule is that the citation should be adequate to permit the reader to locate the original source with precision and efficiency.

- Quotations

All quoted items should be placed in inverted commas or indented in the text and a page number cited.

Example: "Management is essential in all organised co-operation..."  
(Koontz and O'Donnell, 1978, pg 5)

### Reference Lists

All sources for an assignment should be listed in a reference section at the end of each assignment. Reference lists are formatted according to certain conventions. All departments in the College have adopted the formatting conventions of the American Psychological Association (APA style). For all assignments, therefore, your reference section should be formatted according to APA conventions. Details on APA formatting for books and journals are available in *Assignment Writing Guidelines for Business Students*. Copies of this booklet are obtainable from Bennetts Bookshop on the Palmerston North Campus.

For details of how to format more unusual material (proceedings of meetings, TV programmes, individual interviews), refer to the Publication Manual of the American Psychological Association, 4th edition (1995). It is available on request from the reference librarian.

(c) *'Plagiarism is.....'*

Copying or imitating the language, ideas, thoughts, or writing of another author and passing off the same as the student's original work.

- (1) The general rule is that a student may not copy the work of another without attribution as specified in (b) above.
- (2) There is a special problem with plagiarism when essays are assigned that call for the student to report on ideas and theories of an established paradigm (approach, school of thought, research philosophy) and to criticise, integrate, or apply these concepts and evidence. There is a temptation to include passages from the works of the "experts" and often attribution is overlooked in the last minute rush to complete the assignments.

Using references to the "experts" is usually encouraged but such sources must be cited.

- (3) Lecturers normally have a thorough knowledge of the reference material in the field in which they assign student work. In addition, usually perceptive or well-expressed ideas in an essay can provoke

favourable comment from lecturers, with the result that the essay is shown to other lecturers to admire.

## **TO SUMMARISE PLAGIARISM**

WHAT EXACTLY IS PLAGIARISM?

PLAGIARISM IS A FORM OF CHEATING.

PLAGIARISM IS USING SOMEONE ELSE'S IDEAS OR WORDS AND SAYING THEY ARE YOUR OWN.

IF YOU USE MATERIAL FROM A TEXT AND DO NOT ACKNOWLEDGE THE SOURCE, YOU ARE COMMITTING PLAGIARISM.

Specifically, these behaviours are often regarded as plagiarism:-

- Copying directly from a text, acknowledging the source but pretending that you are paraphrasing.
- Paraphrasing or copying directly from a text without acknowledging the source.
- Copying from another student's assignment with or without the student's knowledge.

These behaviours are also sometimes regarded as plagiarism:-

- Submitting the same assignment in two different papers.
- Getting someone else to write an assignment for you.

You are also involved in plagiarism if you:

- let another student copy from your own work.
- write an assignment for another student.

THE UNIVERSITY HAS SEVERE PENALTIES FOR PLAGIARISM.

**YOU HAVE BEEN WARNED**