

Introduction to course

This is a course on empirical methods in finance.

Most of it will be teaching building blocks for people who wants to implement empirical analysis, without too much reflection on placing it in context.

However, some more birds eye perspective: Angrist and Pischke (2008), in their introduction to econometric analysis, introduce what they call the four “FAQ of (econometric) research,”:

1. What is the causal relationship of interest?
2. What is the experiment that could ideally be used to capture the causal effect of interest?
3. What is your identification strategy?
4. What is your mode of statistical inference?

In this course we will spend time mainly on methods that have been used in the past to answer these questions.

What is econometrics? (for now)

Formal way of making probability statements.

Based on a model of reality.

Typical statements

60% of people prefer beer to wine

The average world inflation this year has been 3%, down from 10% 10 years ago

For the last six months bonds have yielded 5% while stocks have had a 10% return

Joshua D Angrist and Jörn-Steffen Pischke. *Mostly Harmless Econometrics*.
Princeton University Press, 2008.