

BUAD 491 HONORS SEMINAR

**Department of Finance and Business Economics
Spring 2009**

Christopher S. Jones

COURSE SYLLABUS

Class time: Fridays from 9:00 –10:30 AM

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A WARNING

Many people find writing an original research paper to be an extremely rewarding activity – one that gives them a lasting sense of accomplishment and even a springboard into graduate school or a professional career. Many who try, however, are not successful. Please do not enroll in this course if dropping out will force you to delay graduation.

OFFICE HOURS

Office hours are from 1:30-3:30 on Thursdays. I am also available at other times, but I ask that you make an appointment with me at least a day in advance. The fastest way to get in touch with me is by e-mail.

COURSE OBJECTIVE

The purpose of this course is to write an honors thesis. This means a work containing original thought that contributes to the profession's collected knowledge of finance or economics. Your goal is to answer a question that nobody has yet thought to ask or been able to answer. Most likely, this will be an empirical question that requires you to gather data and analyze it using modern statistical methods. Less likely is a theoretical work in which you propose a model and use it to draw

new insights into financial markets and economic systems.

The main difference between this thesis and other papers you have written for other classes is *not* the length of the thesis, but rather the much greater importance placed on original thinking and analysis. Papers are long because they attempt to do something important and new. If your thesis is successful it is likely that it will be the longest paper you have written, but length by itself is hardly any indication of the quality of the work and is a meaningless measure of your accomplishment.

EXPECTATIONS

Enrollment in BUAD 491 is restricted to students with exceptional academic records. My assumption will therefore be that you have an excellent command of the material presented in all mandatory finance courses. Since the vast majority of successful undergraduate theses involve substantial empirical analysis, I will also assume that you have retained a strong understanding of statistics from BUAD 310. Finally, you should be able to demonstrate an advanced level of knowledge in the area in which you want to write your dissertation.

I will make no attempt to verify your aptitude in these areas, but the chance of completing a satisfactory honors thesis (i.e. passing this class) is very low if any of these conditions are not met. Doing original research is hard enough even if you are an expert in your field. If you are not, it can be close to impossible.

Even though this is a 2-unit course, I expect that many of you will find this course to be roughly equivalent to a regular 4-unit course in terms of workload. However, it could be significantly more or less demanding depending on how well you are prepared to do research. In the past many students who signed up for the course ended up dropping after realizing how much work it was going to be. I expect this year will be similar.

COURSE OUTLINE

The class will culminate in the completion of a single, very polished, thesis-worthy paper. Getting to that point will require a set of intermediate steps.

The semester will start off with four lectures in which I will talk about the goals, process, and methods of research. During this time, you should be thinking about your topic. This will involve reading many journal articles and, most likely, also require an investigation of potential data sources.

In week five there will be a research proposal due. This consists of a short description (3-4 pages) of the problem you wish to analyze and a brief description of prior literature in the area, including a short bibliography. This proposal should

also motivate the question you wish to ask. Why should a reader spend time to read your paper? Why is it important? Will it lead to a public policy recommendation? Will it help people invest more effectively?

My personal view is that a good research question can be asked in a single sentence. If there are so many nuances to your question that it is hard to explain what it is, it probably is not a very good question – you are either splitting hairs or not thinking clearly. If you have many different questions you want to answer then that's also a problem. If they are interesting questions, then one should be enough. If they are not interesting, then you are just wasting your time.

Over the following week you will receive some feedback from me on your proposal. You should realize that this feedback could be quite negative. If your topic is infeasible, unoriginal, or nonsensical, then your proposal will be rejected and you will be required to submit a new one. Although I will assist you in developing your ideas, those ideas will be yours, not mine. It is possible that many of you will drop the class at this point.

If all goes well, your next step will be to write a full literature review. This will be due in week seven. Your goal here is three-fold. First, you want to definitively establish that your question has not already been answered. Second, you want to show the literature would be interested in the question you are trying to ask. Finally, and perhaps most importantly, you should try to find a statistical or theoretical framework in which you can answer your question. This might be a standard regression that you can add a new variable of interest to, or it could be a standard theoretical model that you can modify to suit your purposes. Your goal is to find where the literature is at and then build on it.

In week nine you will turn in a description of your research methodology. Exactly what data are you going to use, what analysis are you going to perform, and what software are you going to use? Your goal here is to show me (and yourself) that you have a plan that can be feasibly executed by the end of the semester.

At the same time you are writing your literature review and research methodology report, the class might meet sporadically to discuss proposals. I may ask you to make an informal presentation. The format and content of these discussions will depend on the number of students enrolled.

After this point, most of your interaction with me will be one-on-one. Three weeks before the final due date I will require a rough draft of your thesis. This should include, *at a minimum*, your introduction, literature review, and all your main results. Trust me that it will easily fill up the last three weeks to fill in all the details and get your paper looking as polished as it needs to be.

What those remaining details are will depend on your topic, but a good empirical paper will often take a form similar to this:

- I. *Introduction*. What is the question? Why is it interesting? What are you adding relative to prior literature? What methodology will you use to answer the question?
- II. *Literature review*. What has the prior literature done that is related? What have they done right and wrong? Why has nobody answered your question already? What papers provide results that you will use in your paper?
- III. *Theory*. What is the economic theory you are investigating? What are the null hypotheses you will test? Are there alternative theories that you might be able to distinguish by looking at the data? What do you need to look for?
- IV. *Econometric methodology and data*. What approach will you use for answering your research question? What data, if any, do you use, and where do you get it? What regressions will you run? What econometric methods and software will you employ? Why does everything that you are doing make sense?
- V. *Results*. What do you find when you do the statistical analysis? Are the results robust to variations in your methodology? What economic theories are supported or rejected by your results? What puzzles are resolved and what results are puzzling?
- VI. *Conclusion*. What did you do? What did you find? What are the implications for investors or policymakers? How do you think future research should try to progress even further?

Theory papers might look more like this:

- I. *Introduction*. What is the question? Why is it interesting? What are you adding relative to prior literature? What model or solution method will you use to answer the question?
- II. *Literature review*. What has the prior literature done that is related? What have they done right and wrong? What empirical observations are you seeking to explain? Why has nobody answered your question already? What papers provide a framework that you will use in your paper?
- III. *Economic model*. What are the basic assumptions you are making? Who are the economic agents in your model and what is their objective? What does the economy look like?
- IV. *Solutions*. How do you solve your model? If the model contains unknown parameters, how do you choose them? What solutions can you derive analytically? Where is a numerical approach necessary?
- V. *Results*. What do you find when analyzing your model? What results are unambiguous and what results depend on unknown model parameters? Does your model generate economic behavior that is realistic? Does it generate predictions that could be investigated empirically?
- VI. *Conclusion*. What did you do? What did you find? What are the implications for investors or policymakers? How do you think future research should try to progress even further?

IMPORTANT GUIDELINES

A thesis must be original work for BUAD 491. You cannot use a previous term paper. You can base your thesis on a previous term paper if you secure prior permission of the faculty advisor and include the original term paper in an appendix. All theses will be carefully checked for originality. Any violations of the Student Conduct Code will result in an F in the course.

PROGRESS

It is your responsibility to make arrangements to meet with me when you need help. If it happens that you have research interests that are closer to another faculty member, I may try to get his or her input also.

GRADING

The grading system is the usual A to F. The final paper will account for 70% of the final grade. Other written assignments will comprise 20% and class participation 10%.

You are allowed to turn in one assignment up to one week late. More than one late assignment will result in a 10% reduction of that assignment's maximum grade each day it is late. The final version of your thesis may not be turned in late under any circumstances.

All assignments must be handed in typed and on paper. I will not accept hand written work or assignments sent by email.

IMPORTANT JOURNALS TO READ

While there is much excellent research in other journals, much of the most influential work has appeared in the following economics and finance journals. In addition to 10 leading academic journals, I have also included three "practitioner" finance journals. These contain research that is original but somewhat more applied than typical academic papers. Often these papers are very interesting but not as rigorous as those you would find in more traditional journals.

American Economic Review	flagship econ journal
Econometrica	general econ journal, very technical
Financial Analyst Journal	practitioner finance journal
Journal of Finance	flagship finance journal,
Journal of Financial Economics	academic finance journal
Journal of Investment Management	practitioner finance journal

Journal of Monetary Economics	macro econ journal
Journal of Political Economy	general econ journal
Journal of Portfolio Management	practitioner finance journal
Quarterly Journal of Economics	general econ journal
Review of Economic Dynamics	macro econ journal
Review of Economic Studies	general econ journal
Review of Financial Studies	academic finance journal

All of these journals are available on-line through the USC Libraries web site.

IMPORTANT DATES (lecture topics tentative)

1/16/2009	Lecture: Introduction to research in finance and economics
1/23/2009	Lecture: Forming a successful research topic
1/30/2009	Lecture: Data sources
2/6/2009	Lecture: Statistical software
2/13/2009	Research proposal due at 9:00AM
2/27/2009	Literature review due at 9:00AM
3/13/2009	Statement of methodology due at 9:00AM
4/17/2009	First full draft should due at 9:00AM
5/8/2009	Final version due at 9:00AM