College of Business Administration

Econ 463/563 Applied Econometrics of Financial Markets

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"Every attempt will be made to accommodate qualified students with disabilities. If you are a student with a documented
disability, please see me as early in the semester as possible to discuss the necessary accommodations, and/or contact the
Disability Services Office at (507) 389-2825 (V) or 1-800-627-3529 (MRS/TTY)."

Course Materials
Lecture Notes and Practice Problems

Course Objectives and Tools
This course is designed to cover basic tools in time series analysis and to equip students
with quantitative skills to analyze the financial market. For each topic, we start with the
econometrics models and then explore their applications in financial markets.

This course presents examples of the use of the techniques in Finance, together with
annotated computer instructions and sample outputs for Eviews 6.0. Hence, Eviews
programming skill is required for homework assignment and class participation. This class
utilizes the basic principles and techniques of econometrics. The course is focused on
developing the methods and quantitative tools needed to properly understand and use least
squares regression analysis as it is applied to time series analysis in finance, financial
economics, securities and investments. Although the applications, examples and models in
this course are drawn from finance, the empirical testing of theories in many other
disciplines, such as management studies, business studies, and so on, may usefully employ
time series analysis.

Two quite distinct general techniques are used in Econometrics. Traditional models
(regression technique) capture the behavior of economic variable through a structural
model based on theory. Time series models, on the other hand, concentrate on the dynamic
characteristics of economic and financial data. The two alternative methodologies are
equally important in applied Econometrics.

In general, Econometrics analysis consists of three major steps; 1) Estimating, 2) Testing
and 3) Forecasting. These three steps are very typical and widely used in business, finance,
social science, and natural and physical sciences. Hence, this class is based upon the three
major steps and you will have the opportunity to
1) Estimate and learn how to use data analysis to explore mathematical and statistical relationships between variables;

2) Test and interpret the results in ways that are interesting, enlightening, and useful and modify the estimated model considering the potential problems with the analysis.

3) Forecast and make plausible conjecture on the population characteristics and use the forecasting result in the real life.

Throughout, we focus on both understanding and doing. The understanding will come from lectures, class discussions, and problem solving. The doing will come from extensive statistical software use (particularly, Eviews).