ECON 444a. Market Inefficiencies and the Limits of Arbitrage

Day / time: M/W 11:35 - 12:50 pm
Course Type: Undergraduate
Course term: Fall
Year: 2017
Instructor(s): Michael J Pascutti

The purpose of the seminar is for the students to understand what hedge funds do, why they exist and how they are different from other investment vehicles. We will investigate whether hedge funds actually generate excess returns to investors or simply charge high fees and benefit from market risk premiums.

Though the hedge fund industry is cloaked in secrecy, the industry's primary goal is to add value for investors and make money for managers. Hedge funds are quite diverse in their attempt to achieve these goals. Over the past few decades hedge funds have grown significantly relative to the overall economy. This growth in capital has benefited hedge fund managers but also compressed the opportunity set available for the industry to deliver meaningful performance. Hedge fund revenues (compensation) increase linearly with asset size so managers profit handsomely from asset growth even when investors are hurt by the growth of the industry. Wealth accumulation by hedge fund managers has elevated their market influence but also increased the public and political outrage.

Prerequisites: Intermediate microeconomics and econometrics

Semester offered: Fall
Undergrad Course Category: Finance