The Capital Markets Board of Turkey
in cooperation with
Özyeğin University
jointly present
the Financial Seminar Series

George M. CONSTANTINIDES, Professor of Finance,
The University of Chicago, Booth School of Business
speaking on

"The Puzzle of Index Option Returns"

PROF. George M. CONSTANTINIDES

George Constantinides studies the causes of the historically observed premium of equity returns over bond returns, the value premium, and the size premium; the pricing and hedging of fixed-income securities, options, futures, and other derivatives; the effects of transaction costs and taxes on the pricing and hedging of derivatives; and portfolio management. He has published numerous papers in distinguished academic periodicals. Subjects he has covered include "Mispricing of S&P 500 Index Options," written with J. C. Jackworth and S. Perrakis in the Review of Financial Studies; "Rational Asset Prices," in the Journal of Finance; and "Junior Can't Borrow: A New Perspective on the Equity Premium Puzzle," written with J. B. Donaldson and R. MehraintheQuarterlyJournalofEconomics.

A former president of the American Finance Association and of the Society for Financial Studies, Constantinides is a research associate at the National Bureau of Economic Research. He serves as a director and trustee of the Dimensional Fund Advisors' family of funds and trusts.

Constantinides earned a bachelor's degree from Oxford University and an MBA and DBA degrees from Indiana University. He joined the Chicago Booth faculty in 1979, having previously taught at Carnegie Mellon University. He also visited Harvard University as a Marvin Bower Fellow.

In addition to his research and teaching, he likes to spend time with family and friends, travel, scuba dive, read, listen to music, and discover new people, ideas, places, and restaurants.

Abstract

This paper documents that the leverage-adjusted returns on S&P 500 index calls and puts are decreasing in their strike-to-price ratio over 1986-2009, contrary to the prediction of the Black-Scholes-Merton model. A large number of plausible factor models are tested in order to learn what drives the violations of the Black-Scholes-Merton model. For some factors, the premia estimated from the universe of equities are statistically different from those estimated from the universe of options and it is difficult to reconcile this difference with the notion that the equities and index options markets are integrated. Consistent with the picture that crisis-related factors operate across

the equities and index options markets, the factors Jump and Liquidity and, to a lesser extent, Bid-Ask, are the only ones that work reasonably well in explaining the cross-section of index option returns, even when there is a restriction that the premia are estimated from the universe of equities.

Venue: Özyeğin University,
Room 400 (roof)
Kusbakisi Cad. No.2 , 34662
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Date: 24 March 2011, Thursday

Time: 15:00 - 16:00 Seminar
16:00 – 16:30 Q & A

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The seminar shall be conducted in English.