

Quantitative Finance
Course Number: 22:839:637
Course Title: Financial Forecasting and Simulation

COURSE DESCRIPTION

This is a quantitatively oriented course for the Master of Quantitative Finance (MQF) students. Forecasts of financial variables play a prominent role in financial and business decision-making. This course provides an overview of modern statistical and econometric methods for predicting financial variables and evaluating forecasts. Students will develop an understanding of the basic components of a forecasting model, how to build their own forecasting models, and how to evaluate the performance of forecasting models. We emphasize intuitive understanding of the basic concepts and techniques and practical applications to real world data. Topics covered include linear projections; modeling and forecasting trend, seasonality and cycles; AR, MA, ARMA, ARIMA, and VAR models; forecasting with fundamentals; conditional forecasting models and scenarios analysis (stress testing); evaluating and combining forecasts; unit roots, cointegration and stochastic trends; smoothing and shrinkage; ARCH, GARCH and volatility forecast; unobserved components models and Kalman filter forecasting; data snooping, bootstrap, and reality check.

COURSE MATERIALS

Main Text

Diebold, Frank X., 2017, *Forecasting in Economics, Business, Finance and Beyond*, University of Pennsylvania.

Useful References

Hyndman, Rob J., and George Athanasopoulos, 2018, *Forecasting: Principles and Practice*, 2nd Edition.

Brockwell, Peter J., and Richard A. Davis, 2016, *Introduction to Time Series and Forecasting*, 3rd Edition, Springer Nature, ISBN 9783319298542.

Rachev, Svetlozar, Stefan Mittnik, Frank Fabozzi, Sergio M. Focardi, and Teo Jaic, 2006, *Financial Econometrics: From Basics to Advanced Modeling Techniques* (Frank J. Fabozzi Series), ISBN:978-0-471-78450-0.

Tsay, Ruey, 2010, *Analysis of Financial Time Series*, 3rd Edition, Wiley, ISBN 10: 0470414359.

Hurn, Stan, Vance L. Martin, Peter C.B. Phillips, and Jun Yu, 2021, *Financial Econometric Modeling*,

PREREQUISITES

Basic calculus and statistics

ACADEMIC INTEGRITY

I do NOT tolerate cheating. Students are responsible for understanding the RU Academic Integrity Policy (<http://academicintegrity.rutgers.edu/>). I will strongly enforce this Policy and pursue *all* violations. On all examinations and assignments, students must sign the RU Honor Pledge, which states, “On my honor, I have neither received nor given any unauthorized assistance on this examination or assignment.” [I will screen all written assignments through *SafeAssign* or *Turnitin*, plagiarism detection services that compare the work against a large database of past work.] Don’t let cheating or plagiarism destroy your hard-earned opportunity to learn and advance. See business.rutgers.edu/ai for more details.

Guidance on the use of AI at Rutgers

As noted in [Rutgers Academic Integrity Policy 10.2.13](#), the principles of academic integrity require that students make sure that all submitted coursework be “the student’s own and created without the aid of impermissible technologies, materials, or collaborations.”

GRADING POLICY

1. Exam I, 30%,
2. Exam II, 30%,
3. Problem sets, 20%
4. Group project, 15%,
5. Class participation, 5%

Active class participation is very important and can affect your grade. Exams are close-book, close-note. Homework must be submitted in pdf file.

Group Project

The class will be divided into groups. Each team is expected to build a forecasting model on a topic of your choice in finance, economics, or any business-related field. Project results will be presented by the end of the semester. Each team must submit a preliminary proposal by the fourth week and have their project topic approved by the middle of the semester.

COURSE SCHEDULE

1. Statistical and econometric underpinnings
2. Modeling and forecasting trend and seasonality
3. Characterizing, modeling and forecasting cycles: MA, AR, and ARMA models
4. Forecasting with fundamentals
5. Conditional forecasting models and scenarios analysis (stress testing)
6. Evaluating and combining forecasts
7. Unit roots, cointegration, stochastic trends, ARIMA, VAR, and smoothing
8. ARCH, GARCH, volatility measurement, modeling and forecasting
9. Unobserved components models and Kalman filter forecasting
10. Data snooping, bootstrap, and reality check

SUPPORT SERVICES

If you need accommodation for a *disability*, obtain a Letter of Accommodation from the Office of Disability Services. The Office of Disability Services at Rutgers, The State University of New Jersey, provides student-centered and student-inclusive programming in compliance with the Americans with Disabilities Act of 1990, the Americans with Disabilities Act Amendments of 2008, Section 504 of the Rehabilitation Act of 1973, Section 508 of the Rehabilitation Act of 1998, and the New Jersey Law Against Discrimination. More information can be found at ods.rutgers.edu.

[Rutgers University-New Brunswick ODS phone (848)445-6800 or email dsoffice@echo.rutgers.edu]

[Rutgers University-Newark ODS phone (973)353-5375 or email ods@newark.rutgers.edu]

If you are *pregnant*, the Office of Title IX and ADA Compliance is available to assist with any concerns or potential accommodations related to pregnancy.

[Rutgers University-New Brunswick Title IX Coordinator phone (848)932-8200 or email jackie.moran@rutgers.edu]

[Rutgers University-Newark Office of Title IX and ADA Compliance phone (973)353-1906 or email TitleIX@newark.rutgers.edu]

If you seek *religious accommodations*, the Office of the Dean of Students is available to verify absences for religious observance, as needed.

[Rutgers University-New Brunswick Dean of Students phone (848)932-2300 or email deanofstudents@echo.rutgers.edu]

[Rutgers University-Newark Dean of Students phone (973)353-5063 or email DeanofStudents@newark.rutgers.edu]

If you have experienced any form of *gender or sex-based discrimination or harassment*, including sexual assault, sexual harassment, relationship violence, or stalking, the Office for Violence Prevention and Victim Assistance provides help and support. More information can be found at <http://vpva.rutgers.edu/>.

[Rutgers University-New Brunswick incident report link:

<http://studentconduct.rutgers.edu/concern/>. You may contact the Office for Violence Prevention and Victim Assistance at (848)932-1181]

[Rutgers University-Newark incident report link:

https://cm.maxient.com/reportingform.php?RutgersUniv&layout_id=7 . You may also contact the Office of Title IX and ADA Compliance at (973)353-1906 or email at TitleIX@newark.rutgers.edu. If you wish to speak with a staff member who is confidential and does **not** have a reporting responsibility, you may contact the Office for Violence Prevention and Victim Assistance at (973)353-1918 or email run.vpva@rutgers.edu]

Bias incidents: an act – either verbal, written, physical, or psychological that threatens or harms a person or group on the basis of actual or perceived race, religion, color, sex, age, sexual orientation, gender identity or expression, national origin, ancestry, disability, marital status, civil union status, domestic partnership status, atypical heredity or cellular blood trait, military service or veteran status.

Bias incidents can be reported online at:

[New Brunswick Bias Incident Report Form](#)
[Newark Bias Incident Report Form](#)

If students who have experienced a temporary condition or injury that is adversely affecting their ability to fully participate, you should submit a request via <https://temporaryconditions.rutgers.edu> .

If you are a military *veteran* or are on active military duty, you can obtain support through the Office of Veteran and Military Programs and Services. <http://veterans.rutgers.edu/>

If you are in need of *mental health* services, please use our readily available services.

[Rutgers University-Newark Counseling Center: <http://counseling.newark.rutgers.edu/>]

[Rutgers Counseling and Psychological Services–New Brunswick: <http://rhscaps.rutgers.edu/>]

If you are in need of *physical health* services, please use our readily available services.

[Rutgers Health Services – Newark: <http://health.newark.rutgers.edu/>]

[Rutgers Health Services – New Brunswick: <http://health.rutgers.edu/>]

If you are in need of *legal* services, please use our readily available services:

<http://rusls.rutgers.edu/>

Students experiencing difficulty in courses due to *English as a second language (ESL)* should contact the Program in American Language Studies for supports.

[Rutgers–Newark: PALS@newark.rutgers.edu]

[Rutgers–New Brunswick: eslpals@english.rutgers.edu]

If you are in need of additional *academic assistance*, please use our readily available services.

[Rutgers University-Newark Learning Center: <http://www.ncas.rutgers.edu/rlc>]

[Rutgers University-Newark Writing Center: <http://www.ncas.rutgers.edu/writingcenter>]

[Rutgers University-New Brunswick Learning Center: <https://rlc.rutgers.edu/>]

[Optional items that many faculty include:

- Students must sign, date, and return a statement declaring that they understand the RU Academic Integrity Policy.
 - Students must sign, date, and return a statement declaring that they understand this syllabus.]
-

CODE OF PROFESSIONAL CONDUCT

[If you prefer to direct students to the conduct policy online instead, please use the following link and place it beneath the header above:

<https://myrbs.business.rutgers.edu/students/code-professional-conduct>]

Rutgers Business School is recognized for its high-quality education. To that end, maintaining the caliber of classroom excellence, whether in person or online, requires students to adhere to the same behaviors expected in professional career environments. These include the following principles:

Discussion and Correspondence

- Each student is encouraged to participate actively in class discussions and exercises. Substantive dialogue requires a degree of mutual respect, willingness to listen, and tolerance of opposing points of view. Disagreement and the challenging of ideas must happen in a supportive and sensitive manner. Hostility and disrespectful behavior will not be tolerated.
- In correspondence and in the classroom, students should demonstrate respect in how they address instructors. Students should use proper titles unless there is an explicit understanding that the instructor accepts less formal alternatives. Similarly, appropriate formatting in electronic communication and timely responsiveness are all expectations in every professional interaction, including with instructors. Everything said and written should demonstrate respect and goodwill.

Punctuality and Disruption

- Class starts and ends promptly at the assigned periods. Students are expected to be in their seats or present online and ready to begin class on time.
 - Take your responsibility to attend class seriously. Your attendance is a critical element of the learning experience for in-person classes. Failure to show up disrupts your learning and signals disrespect to your peers and instructors. (Of course, illness is a legitimate exception requiring advanced reporting to the [University](#) and your instructors.)
 - Barring emergencies and within reason, students are expected to remain in their seats for the class duration. In person, packing belongings before the end of class disturbs both other students and the instructor. Online, attending to other tasks is distracting. In addition, even if webcams are not required in your course, your attention is fundamentally lacking if you are engaged in multiple tasks simultaneously.

Technology

- The use of technology is sanctioned only as permitted by the course instructor. As research on learning shows, peripheral use of technology in classes negatively impacts the learning environment in three ways:
 1. Individual learning and performance directly suffer, resulting in the systemic lowering of grades earned.
 2. In the classroom, one student's use of technology automatically diverts and captures other people's attention, thus impeding their learning and performance. Moreover, even minor infractions have a spillover effect and result in others doing the same.
 3. Subverting this policy (e.g., using a phone during class, even if hidden below the table or out of sight from your webcam; tapping on a smartwatch; using a laptop for non-course related matters) is evident to the course instructor and offensive to the principles of decorum in a learning environment.
- Networking, computing, and associated resources in the trading rooms, advanced technology rooms, and general classrooms are to be used in the manner intended.
- Sharing links to private online classes, attempting to join an online class you are not enrolled in, or posting disruptive content during these sessions are strictly prohibited and may lead to disciplinary action.
- For more instructions on information technology resources at Rutgers University, please refer to the [Acceptable Use Policy for Information Technology Resources](#).

Misappropriating Intellectual Property

- Almost all original work is the intellectual property of its authors. These works may include syllabi, lecture slides, recorded lectures, homework problems, exams, and other materials, in either printed or electronic form. The authors may hold copyrights in these works, which U.S. statutes protect. Copying this work or posting it online (on sites such as Chegg or Course Hero) without the author's permission may violate the author's rights. More importantly, these works are the product of the author's efforts; respect for these efforts and the author's intellectual property rights are important values that members of the university community take seriously.
- For more instructions on copyright protections at Rutgers University, please refer to the [Rutgers Libraries](#).

Rutgers Business School is committed to the highest standards of integrity. We value mutual respect and responsibility, as these are fundamental to our educational excellence inside and outside the classroom.