FIN 367: Investment Management

Syllabus, Spring 2008

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Class Meetings

- **Section 1 (02975):** Monday and Wednesday, 2:00 PM – 3:15 PM. UTC 1.132.

- **Section 2 (02985):** Monday and Wednesday, 3:30 PM – 4:45 PM. UTC 1.132.

Textbooks

Zvi Bodie, Alex Kane, and Alan Marcus (BKM), Investments, 7th Edition, McGraw Hill. Solutions Manual to the book.

Peter Lynch, One Up on Wall Street, Simon & Schuster, 2000.

Office Hours

Monday, Wednesday, 10:00AM – 1:30PM. Tuesday, Thursday, 1:30PM – 5:30PM. In addition, please feel free to stop by my office at **any time**. I am usually in the office from 7:30AM to 6:30PM. However, if you want to be sure I will be in the office when you come, please call me or send me an email to schedule an appointment.

Course Objectives

The goal of this course is to expose you to the fundamental concepts of investment theory and financial markets. This will include an introduction to portfolio theory, asset pricing and the analytical tools of portfolio management. In addition, selected topics from the upcoming field of behavioral finance will be discussed throughout the course. If time permits, I will also carry out some experiments in class.

Honor Code

All students must comply with University policies for conduct and academic honesty at all times during this course. Details of your responsibilities are described in McCombs School's policy statement on scholastic dishonesty. Any violations of these policies will result in referral to the appropriate administrative body.

General Guidelines

1. **Readings:** You are expected to have required readings completed **before** each class. This will include relevant sections from the BKM book, lecture notes, and journals articles.

2. **Class Notes:** They will be posted on the course web site (UT Blackboard) several days prior to the lecture date.

3. **Practice Problems:** Suggested problems from the text will be assigned but they will not be graded.

4. **Active participation:** I expect *all* students to actively participate in class and contribute to the learning process.

   - *Be attentive:* At the end of the lecture, I will randomly pick a student and request him/her to summarize the lecture material and the class discussion.

5. **Difficult Topics:** If you find certain sections of the course difficult, do not panic! I encourage you to discuss those topics with me and/or your friends. I have marked topics that students usually find difficult – one asterisk mark (*) for moderately difficult topics and two asterisk marks (**) for more difficult topics. Try to be more attentive when I am covering these sections in the class.

6. **Review/Extra Sessions:** *Monday and Wednesday, 5:00 PM – 6:00 PM, Finance Department Conference Room (CBA 6.224).* When necessary, I will conduct review sessions to cover difficult topics in a little more detail. I might also discuss certain basic Mathematical concepts (e.g., Calculus). Of course, your attendance in review sessions is optional.

7. **Attendance:** Attendance will not be taken. However, you are responsible for all material presented in class.

8. **Examinations:** There will be four exams and five very short quizzes (15-20 minutes) during the semester. No make-up exams or quizzes will be given but I will consider your three best exam scores and four best quiz scores for grading. All exams and quizzes will be held during regular class hours.

   - There will be **no final examination.**

   - *The difficulty level of tests will vary during the semester.* The topics I will cover in the beginning of the semester are relatively easier and hence, you are likely to find the first exam and the first quiz relatively less challenging. However, please do not form your expectations about other exams based on the first quiz/exam.

   - *Optional oral test:* At the end of the semester you will have the option of taking an oral test if you believe your grade is inconsistent with your knowledge of the course material. The oral test cannot decrease your grade but it *might* increase your grade by one level.

9. **Grading Policy:**

   - *Four examinations:* **60%** of your grade. I will drop your lowest exam score as long as you score 50% or above on that exam. Thus, each exam would be worth 20% of your grade.

   - *Five short quizzes:* **20%** of your grade. I will drop your lowest quiz score. Thus, each quiz would be worth 5% of your grade and the quizzes combined would be equivalent to one exam.

   - *Class participation:* **5%** of your grade.

   - *Three Projects:* **15%** of your grade. There will be two group projects (5%) and an individual project (10%) based partially on Peter Lynch's book. Please read Peter Lynch's book as soon as you can.

Continuous Feedback

I encourage you to give me feedback about the course material, my teaching style and anything else that would help you learn the course material better. You should come and talk to me in person if you have any concerns and/or suggestions. However, if that makes you uncomfortable, you can send me an anonymous email from a class email account that I have created at `www.hotmail.com`. Login: **fin367ut**, Password: **"kumar367"**.

Main Topics

1. **Basic Investment Concepts:** 4 lectures and 1 exam.
   Suggested Readings: BKM, Chapters 1-4.

   - Introduction: 1 lecture
   - Types of Securities and Securities Trading: 1.5 lecture
   - IPOs, Mutual Funds: 1.5 lecture
   - *Quiz 1: January 28*
   - **Exam 1: February 4**

2. **Portfolio Theory and Asset Pricing:** 8 lectures and 1 exam.

   - Modeling Uncertainty (**): 2 lectures.
     Suggested Readings: None. Focus on class notes.
   - Portfolio Theory (**): 4 lectures.
     Suggested Readings: BKM, Chapters 5-7, 25.
   - Asset Pricing: CAPM and APT (*): 2 lectures.
     Suggested Readings: BKM, Chapters 8-10.
   - *Quiz 2: February 13; Quiz 3: February 25.*
   - *Group Project 1: Due February 20; Group Project 2: Due March 3.*
   - **Exam 2: March 5**.

*************************** SPRING BREAK ***************************

3. **Security Valuation, Market Efficiency, and Behavioral Finance:** 8 lectures and 1 exam.

   - Performance Evaluation (*): 2 lectures.
     Suggested Readings: BKM, Chapter 24.
   - Security Valuation: 1.5 lecture.
     Suggested Readings: BKM, Chapter 18.
   - Bond Pricing: 1 lecture.
     Suggested Readings: BKM, Chapters 14-16.
   - Efficient Market Hypothesis (*): 1 lecture.
     Suggested Readings: BKM, Chapter 11.

- Behavioral Finance: 2.5 lectures.
  Suggested Readings: BKM, Chapter 12. Journal articles.

- *Quiz 4: March 24.*

- **Exam 3: April 9.**

4. **Option Markets; International Finance:** 5 lectures and 1 exam.
   Suggested Readings: BKM, Chapters 20-22.

   - Basic Option Pricing Concepts: 2 lectures

   - Binomial Model (**): 1 lecture

   - Black-Scholes Model (*): 1 lecture

   - International Finance (*): 1 lecture

   - *Quiz 5: April 21*

   - **Exam 4: April 30**

Individual Project: Due April 14

This is only a tentative list of topics that I plan to cover during the semester. I may add or delete topics from this list as the semester progresses. You are responsible for any changes I announce in the class.

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	JANUARY	FEBRUARY	MARCH	APRIL	MAY
1					
2				L21: Behavioral Finance, Experiments	
3			L14: Perform. Evaluation; **Group Project 2 due**		
4		L6: EXAM 1			
5			L15: EXAM 2		
6		L7: Basic Statistical Concepts			
7				L22: Behavioral Finance, Applications	
8					
9				L23: EXAM 3	Optional Oral Exam
10			No class (Spring Break)		Optional Oral Exam
11		L8: Asset Allocation			
12			No class (Spring Break)		
13		L9: Certainty Equivalent; **Quiz 2**			
14	L1: Introduction			L24: Option Markets I; **Individual Project due**	
15					
16	L2: Securities Markets			L25: Option Markets II	
17			L16: Market Timing		
18		L10: Portfolio Theory			
19			L17: Security Valuation		
20		L11: Portfolio Th. II; **Group Project 1 due**			
21	No class (MLK Day)			L26: Binomial Model; **Quiz 5**	
22					
23	L3: Margin Trading and Short Selling			L27: Black Scholes Model	
24			L18: Bond Pricing; **Quiz 4**		
25		L12: Capital Asset Pricing Model (CAPM); **Quiz 3**			
26			L19: Market Efficiency		
27		L13: Arbitrage Pricing Theory (APT)			
28	L4: Mutual Funds; **Quiz 1**			L28: International Finance	
29					
30	L5: Modeling Uncertainty			L29: EXAM 4	
31			L20: Behavioral Finance, Theory		