

Provisonal Syllabus for FIN367

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Office Hours: Tuesdays and Thursdays 9:30-10:30 AM, or by appointment.

Course Website: Blackboard.

Class meetings: Tuesday and Thursday 12:00-1:30PM (03145) and 1:30-3:00PM (03155), UTC 1.104.

Prerequisite: Upper-division standing, and FINANCE 357 or 357H.

Note: This syllabus is subject to revision and modification.

1 Course Description

This course provides a rigorous treatment of the core concepts of investments for finance majors. It broadly covers financial instruments, such as equity, fixed income, and derivative securities, as well as key concepts in international finance. It makes use of spreadsheet modeling to implement financial models.

We begin by discussing investment theories that concern dealing with risk in general, although equity securities will be our primary focus during this unit. We then proceed to discussing concepts concerning fixed-income securities, such as pricing of these securities, yields, as well as theories about risk concerning the term structure of interest rates. Our third unit discusses derivative securities, and here, besides the basics of markets and instruments available, we will spend a great deal of time discussing the pricing of such securities. An application of many of these topics to investing across borders (international finance), as well as a discussion of the different types of risk involved in such investments and how these can be dealt with wraps up the course.

2 Textbook

Essentials of Investments, by Bodie, Kane and Marcus, 7th Edition (ISBN 9780073368719); I will be referring to this text as *BKM* in reading assignments, which will be posted at the beginning of every set of lecture slides. This book constitutes the required text for the course.

Readings are generally meant to supplement what is taught in lectures and to deepen your understanding of the material. Unless otherwise stated, you will not be responsible for material covered only in the textbook and not in class. Caveat: the material covered in class is of course not limited to the content of the slides, but also includes things that are discussed without being on any slides, and any implications thereof.

I do not expect readings to be done by the time a topic is covered in class. The textbook should be your source for deepening your understanding of the material after I have treated it.

3 Other Course Materials

Lecture slides will generally be made available shortly before class. Packets containing assignments will be made available in class.

All electronic materials will be available on Blackboard. Use Blackboard as your primary resource for all electronic materials for the course.

4 Course Requirements and Grading

Each element of the course has the following points value:

Portfolio Project	10%.
Short Paper	5%.
Team Presentation	10 %.
Problem Sets (3)	5% each (i.e. 15% combined).
Midterm examinations (2)	15% each (i.e. 30% combined).
Final examination	30%.

Furthermore, for students who receive a curved score of B+ or higher on the final exam, I will drop the lowest midterm grade, and simply count the higher midterm score for both midterms. The final-exam score will not be affected.

There is no opportunity to do *extra credit work* in this course. Your score for the course will be determined only by the requirements above. If you are taking the course pass/fail you must complete all projects and exams in order to pass the course.

Your final grade will be determined by where your overall score for the course lies in relation to that of your classmates from both sections of the course. The final cutoffs between letter grades will be determined by the shape and position of the course distribution.

Exams The two midterm exams will be given during class time on the following dates:

- Midterm 1: Tuesday, October 6.
- Midterm 2: Thursday, November 12.

The final exam will take place on the date scheduled by the registrar's office. Most likely, this will be Friday, December 11, from 7 to 10 PM. However, as you know this is subject to change.

Please bring a photo ID (preferably your student ID) to each exam.

The first midterm covers the material studied up to that point. The second midterm covers the material studied between the first and the second midterm. The final exam is cumulative, covering the material from the entire course.

The exams will test your critical understanding and your ability to apply the material. Rote-level memorization will in most cases be unnecessary, and will certainly not get you very far in solving questions. The latter can also be said for the use of a calculator.

The position of the exams in the course outline are approximate indications of where within the material, exams will fall. However, final determination of the scope of each exam will be made before each exam, based on our progress.

Important! You must take all exams at the date, time, and location for which they are scheduled. No alternative exam dates or make-up exams will be given, except in family or medical emergencies. In such cases hard evidence is required, and I must be informed of your circumstances by the start of the exam at the latest.

Do not schedule job interviews during exams. Should it be unavoidable to do this, however, the following will apply:

- You must submit evidence from the firm (on the firm's letterhead) with which you are interviewing that you have an interview scheduled for the time of the exam, and that no other interview time was available. This must be done at least 24 hours before the start of the exam.
- You will *not* be given a make-up test. Instead the average score of your other two exams will be used for the missed exam.

All deadlines are final.

Problem Sets You may work on problem sets in groups of no more than three. Should you elect to work on homework in such a group, you may hand in a single sheet for the entire group (with up to three names on it), rather than three identical pieces of work. On the other hand, if two identical or extremely similar sheets are submitted and illegal cooperation is thus suspected, this will be treated as scholastic dishonesty.

All homework is due at the beginning of class on the due date. Homework submitted after this time will be considered late.

Projects This course contains a writing component. This will consist firstly of a short paper (two to three pages, 12-point font, double-spaced) in which you will have the opportunity to apply a financial concept discussed in the course to a real-world news event of the past year. Secondly, you will have the opportunity to practice portfolio techniques using Excel models and based on the results of this exercise, you will need to produce a five-page paper discussing your findings. Both of these papers must be completed individually. No collaboration is allowed.

It is absolutely essential that both these projects be written eloquently and correctly, in excellent, formal business English. This is a substantial component of these projects. The university has writing tutor services available, should you feel you need extra help in this respect.

Finally, you will have the opportunity to present an expanded version of the short paper in a team of 3 students. For this presentation, which should last approximately five minutes, you will need to prepare slides as visual aids, and you will be judged on presentation style and content.

Participation and Attendance Class participation is required and you obviously must be present to participate. Be prepared to answer questions. At the end of each class, students who raise and/or answer questions in a meaningful way should sign in with the instructor. At the instructor's discretion, a student who participates actively in class will get the higher grade if she/he is at a cut-off point along the grade curve (e.g., if the cutoff for A is 90, then anyone scoring between 89 and 90 will get bumped up to A if she/he participate actively in class).

If you must miss a class it is your sole responsibility to find out what was done that day, including administrative announcements. I will not catch you up!

If you must leave a class early, please let me know before the beginning of class. Leaving in the middle of class without having advised me of your need to do this will undo any positive standing you may have worked for hard throughout the rest of the semester by actively participating.

Calculator A financial calculator capable of computing present value and rates of return of cashflow series will be required for class meetings and exams. I will be using a Texas Instruments BA-II Plus. It is not necessary for you to have the same calculator, although this will make it easier for me to help you with calculator inputs. Please bring your calculator to each class, as this way you will be able to work through in-class examples.

5 More Terms and Conditions

Laptop computers are allowed in class but may only be used for activities related to the course (mainly note taking). Performing unrelated activities during class disrupts everyone around you, will weigh negatively on your participation grade, and may result in expulsion from a particular lecture. Mobile phones should be switched off and put away while in class.

You are always expected to behave in accordance with UT's rules on academic integrity and with UT's honor code. Scholastic dishonesty will be dealt with harshly. Please refer to the Student Judicial Services website

(<http://deanofstudents.utexas.edu/>)

for more information.

The university of Texas at Austin provides upon request appropriate academic accommodations for qualified students with disabilities. For more information, contact the Office of the Dean of Students at 471-6259.

6 Course Outline

1. Equity Securities and Portfolios.

- Basic instruments and assumptions.
- Risk, return, and review of statistics.
- Markowitz Portfolio Theory.
- The Capital Asset Pricing Model (CAPM).
- Portfolio Performance and Market Efficiency.
- Problem Set on Section 1.

Midterm 1.

2. Fixed-Income Securities.

- Fixed-Income instruments and terminology.
- Prices and yields.
- The term structure of interest rates.
- Duration and Convexity.
- Fixed-Income portfolios.
- Problem Set on Section 2.

3. Derivative Securities.

- Derivative instruments and markets.
- Forwards and Futures, including no-arbitrage pricing.
- Options.
- Option pricing.
- Problem Set on Section 3.

Midterm 2.

- Swaps.

4. Applications to international finance.

- Problem Set on Swaps and Section 4.

Final Exam: cumulative, with slight overweight in the material covered after the second midterm.