



FIN 367 INVESTMENT MANAGEMENT

SPRING 2017

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Course Objectives

The objective of this course is to provide you with a conceptual framework for analyzing potential investment opportunities, a solid understanding of the risks that investments in equities, bonds and derivatives are exposed to, and how these risks affect returns. We will cover the important topics of the relationship between risk and return, portfolio choices, market efficiency, bond pricing, equity evaluation and also various aspects of derivatives market.

By the end of this class you will know the tools necessary to make investment decisions both personally and professionally, both in corporations and in financial markets. Not only will you be exposed to the tools in this class, but you will also gain a better understanding of how financial markets work and think like a financial economist about practical problems and situations.

Course Outline

1. Overview of Financial Market and the Time Value of Money (2 Lectures, Ch.1, Ch.2)
2. Risk and Return (1 Lecture, Ch.5)
3. Portfolio Choice (3 Lectures, Ch.6, Ch.7)
4. Capital Asset Pricing Model (2 Lectures, Ch.9, Ch.10)
5. Efficient Market Hypothesis (2 Lectures, Ch.11, Ch.12)
6. Interest Rates and Fixed Income Securities (4 Lectures, Ch.14, Ch.15, Ch.16)
7. Equity Evaluation (4 Lectures, Ch.3, Ch.13, Ch.18, Ch.19)
8. Options and Futures (4 Lectures, Ch.20, Ch.21, Ch.22)
9. Managed Funds (2 Lectures, Ch.24)

Exam Schedule

We have two midterms and one final exam. Please be sure that you are available to attend all of the exams. If you cannot, let me know as soon as possible (at least one week ahead of the exam date). The schedules of the exams are tentative.

- Midterm 1: Tentative 02/20/2017, in class
- Midterm 2: Tentative 04/03/2017, in class
- Final : Schedule pending

Materials

- **Lecture Notes:** most relevant course materials to prepare your exams. All the lecture notes will be handed out each class day. The lecture notes will not be posted on the course website or emailed. If you miss a class, please see me or your classmate for a hard copy. These handouts will include all the formulas you need to solve problems, as well as an overview of the material we discuss in class. You will need to attend the class for a lot of relevant discussion and materials not on the slides. You need to take your own notes for the non-slide materials.
- **Textbook:** *Investments* by Zvi Bodie, Alex Kane, and Alan Marcus, 10th Edition. Textbook is optional in this class. It is a valuable reference for the material I teach in the course, however everything that will be on the exams will be in the lecture notes, and the homework problems will not come directly from the book. Therefore, older editions (9th edition is very close to 10th), electronic versions (e.g. a Kindle rental for around \$70) will all be equally effective. I also reserve one copy for you in the library.
- **Calculator:** Scientific calculator (capable of doing powers and logarithms). You need to use it during the exams, so it cannot be your phone or computer. Please bring your calculator to class every day.

Prerequisite

Finance 367 is restricted to students in a business major. Prerequisite courses are: Finance 357 or 357H; and credit or registration for Statistics 371G, 371H, 375, or 375H.

Course Requirements and Grading

Your grade in the course will be determined as follows:

	Percentage
Homework	10
Course Project--Investment Game	10
Participation	5
Midterm 1	25
Midterm 2	25
Final	25
	<u>100</u>

The worst midterm score can be dropped and the weight can be moved to the final. The final course grade for each student will be computed based on the above weights. The midterms will cover the material only related to that section. Final exam covers the whole course but emphasizing the last section (material after midterm 2). If it helps your grade, I will drop your worst midterm score and move the weight to the final. The reason of this policy is Investments is a challenging subject that sometimes takes a while for students to get accustomed to, often resulting in low scores on the early exams. If this happens, I want to reward you for continuing to work hard and getting a good grade on the final. However, if you miss one midterm exam without notifying me, you will lose the option to reallocate your weight. Also, fail to take final will result zero score in final exam (no option to reallocate the final weight).

The letter grades are assigned with the adjustment for the exam difficulty. The curve will be done for the class as a whole, not for individuals.

Description of Requirements

- **Homework:** There are two types of homework assignments: problems set (80%) and one complementary report (20%) related to the course project.
 - **Problem sets** will be assigned in class (typically on Wednesday), and will be due the following

- Wednesday **before** the class. You can ask your TAs or your classmates for help. I encourage the teamwork in this class, but you need to do and submit your individual homework solution. Late homework will not be accepted. The worst homework grade will also be dropped.
- **Financial Advisor report:** Each of you will be assigned an individual client profile and a limited amount of background information about his or her current financial situation. You should help her design an investment policy, and submit the statement as one homework assignment. This assignment is complementary to the mutual fund management project.
 - **Investment Game – Active Asset Management:** This is a **group** project which consists in the construction, marketing and management of an institutional portfolio. We will assign you into 5-7 funds (groups), depending on the size of class enrollment.
 - The goal of this game is to give you the opportunity to act as a fund manager and develop your understanding and intuition about all main aspects of portfolio management. The game involves designing the portfolio, trading and selling your mutual fund shares to your classmates, who receive some endowment in their financial advisor project.
 - Each group represents the management team of an active mutual fund. Each team should define and document the fund's investment guideline. Each group should raise funds from the "financial advisors" (as described in the financial advisor report assignment).
 - Presentation: Before the trading kicks off, there will be an **in-class presentation**. Each team presents its investment strategies and fees they charge. We will hand out guidance in class early this semester, and the rest of the class will choose which fund to invest using their endowment assigned in the financial advisor assignment.
 - The trading will be based on a live trading platform. You have approximately 7 weeks for implementing your active strategy. Each fund must execute 100 transactions.
 - Timeline of the project: see table I.
 - Evaluation of the course project: This project accounts for 10 points towards the final grades, and the evaluation has two components:
 - 1) Total fees collected by the fun at the end of 7 weeks: 30%. The procedure is the following: funds will be ranked based on the amount of collected fees and performance. The top 3rd of the groups earns 100% points. The second 3rd earns 85% points. The bottom third earns 80% points.
 - 2) Presentation: 40%. Evaluated by the professor. To earn the full 100% points, groups need to present relevant and insightful information regarding trading strategy, analysis of risk in their portfolio, and the reason of fees and expenses they charge. Also, they need to be well prepared to answer questions from investors, me, TAs, and guest professors.
 - 3) The letter to investors at the end of the project: 30%. Evaluated by the professor. At the end of the project, you complete a two page letter to your clients summarizing the performance of the fund over the trading period. In the letter, you also need to provide your self-evaluation that to what degree you achieve your investment goal.
 - **Exam:** There will be two midterms and one final, each held in class. The tests will include both qualitative and quantitative material. The qualitative questions are usually short answer or multiple choices. The best way of preparing for the exams is to keep up with the course material throughout the semester. Doing homework, reviewing notes (make sure you understand everything we talked about in class) and reading relevant chapters are good ways to keep up in this course.
 - **Participation:**
 - Attendance: I expect you to attend class and I expect you to be on time. To accommodate other unexpected problems, I excuse two absences or late appearances.
 - Attendance in the project presentation: It is important that each of group members participate in the class presentation for course project. They should be actively involved in answering questions and presenting. I will take attendance in the presentation.

- In addition, your participation includes participating in the class in an ethical manner. Any violations of the honor code or inappropriate attitude in class will be met with zero participation points.

Feedbacks

If you have any feedback about the course or my teaching at any time during the semester, please send it to xiaolan.zhang@mcombs.utexas.edu. I am eager to hear about any ways I can make it the best possible experience for my students. You should also feel free to send non-anonymous feedback; your grade for the course will be mechanical and I will certainly not hold any feedback against you.

In case you are not comfortable sending me negative feedback directly, I have created an anonymous gmail account: fin367.fall2017@gmail.com (password: fin367_2017) for you to send me feedback.

McCombs Classroom Professionalism Policy

The highest professional standards are expected of all members of the McCombs community. Faculty are expected to be professional and prepared to deliver value for each and every class session. Students are expected to be professional in all respects.

The classroom experience is enhanced when:

- **Phones and wireless devices are turned off.** *In this class, we will not allow laptop during the lecture.* We've all heard the annoying ringing in the middle of a meeting. Not only is it not professional, it cuts off the flow of discussion when the search for the offender begins. When a true need to communicate with someone outside of class exists (e.g., for some medical need) please inform the professor prior to class.
- **Students display their name cards.** This permits fellow students and faculty to learn names, enhancing opportunities for community building and evaluation of in-class contributions.
- **Students do not confuse the classroom for the cafeteria.** The classroom (boardroom) is not the place to eat your breakfast tacos, wraps, sweet potato fries, or otherwise set up for a picnic. Please plan accordingly. Recognizing that back-to-back classes sometimes take place over the lunch hour, energy bars and similar snacks are permitted. Please be respectful of your fellow students and faculty in your choices.
- **Students minimize unscheduled personal breaks.** The learning environment improves when disruptions are limited.

Students with Disabilities

Upon request, the University of Texas at Austin provides appropriate academic accommodations for qualified students with disabilities. Services for Students with Disabilities (SSD) is housed in the Office of the Dean of Students, located on the fourth floor of the Student Services Building. Information on how to register, downloadable forms, including guidelines for documentation, accommodation request letters, and releases of information are available online at <http://deanofstudents.utexas.edu/ssd/index.php>. Please do not hesitate to contact SSD at (512) 471-6259, VP: (512) 232-2937 or via e-mail if you have any questions.

Religious Holidays

By UT Austin policy, you must notify me of your pending absence at least fourteen days prior to the date of observance of a religious holy day. If you must miss a class, an examination, a work assignment, or a project in order to observe a religious holy day, you will be given an opportunity to complete the missed work within a reasonable time after the absence.

Academic Dishonesty

The McCombs School of Business has no tolerance for acts of academic dishonesty. Such acts damage the reputation of the school and the degree and demean the honest efforts of the majority of students. The minimum penalty for an act of academic dishonesty will be a zero for that assignment or exam.

The responsibilities for both students and faculty with regard to the Honor System are described on the final pages of this syllabus. As the instructor for this course, I agree to observe all the faculty responsibilities described therein. As a Texas student, you agree to observe all of the student responsibilities of the Honor Code. If the application of the Honor System to this class and its assignments is unclear in any way, it is your responsibility to ask me for clarification.

As specific guidance for this course, you should consider the *writing* of all examinations to be an individual effort. Group *preparation* for examinations is acceptable and encouraged. Homework assignments are to be turned in individually but I encourage you to work together in answering the questions. You should, however, **develop your own answer and not cut and paste the work of others.**

Honor Code Purpose

Academic honor, trust and integrity are fundamental to The University of Texas at Austin McCombs School of Business community. They contribute directly to the quality of your education and reach far beyond the campus to your overall standing within the business community. The University of Texas at Austin McCombs School of Business Honor System promotes academic honor, trust and integrity throughout the Graduate School of Business. The Honor System relies upon The University of Texas Student Standards of Conduct (Chapter 11 of the Institutional Rules on Student Service and Activities) for enforcement, but promotes ideals that are higher than merely enforceable standards. Every student is responsible for understanding and abiding by the provisions of the Honor System and the University of Texas Student Standards of Conduct. The University expects all students to obey the law, show respect for other members of the university community, perform contractual obligations, maintain absolute integrity and the highest standard of individual honor in scholastic work, and observe the highest standards of conduct. Ignorance of the Honor System or The University of Texas Student Standards of Conduct is not an acceptable excuse for violations under any circumstances.

The effectiveness of the Honor System results solely from the wholehearted and uncompromising support of each member of the McCombs School of Business community. Each member must abide by the Honor System and must be intolerant of any violations. The system is only as effective as you make it.

Faculty Involvement in the Honor System

The University of Texas at Austin McCombs School of Business Faculty's commitment to the Honor System is critical to its success. It is imperative that faculty make their expectations clear to all students. They must also respond to accusations of cheating or other misconduct by students in a timely, discrete and fair manner. We urge faculty members to promote awareness of the importance of integrity through in-class discussions and assignments throughout the semester.

Expectations under the Honor System

Standards

If a student is uncertain about the standards of conduct in a particular setting, he or she should ask the relevant faculty member for clarification to ensure his or her conduct falls within the expected scope of honor, trust and integrity as promoted by the Honor System. This applies to all tests, papers and group and individual work. Questions about appropriate behavior during the job search should be addressed to a professional member of the Career Management Office. Below are some of the specific examples of violations of the Honor System.

Lying

Lying is any deliberate attempt to deceive another by stating an untruth, or by any direct form of communication to include the telling of a partial truth. Lying includes the use or omission of any information with the intent to deceive or mislead. Examples of lying include, but are not limited to, providing a false excuse for why a test was missed or presenting false information to a recruiter.

Stealing

Stealing is wrongfully taking, obtaining, withholding, defacing or destroying any person's money, personal property, article or service, under any circumstances. Examples of stealing include, but are not limited to, removing course material from the library or hiding it from others, removing material from another person's mail folder, securing for one's self unattended items such as calculators, books, book bags or other personal property. Another form of stealing is the duplication of copyrighted material beyond the reasonable bounds of "fair use." Defacing (e.g., "marking up" or highlighting) library books is also considered stealing,

because, through a willful act, the value of another's property is decreased. (See the appendix for a detailed explanation of "fair use.")

Cheating

Cheating is wrongfully and unfairly acting out of self-interest for personal gain by seeking or accepting an unauthorized advantage over one's peers. Examples include, but are not limited to, obtaining questions or answers to tests or quizzes, and getting assistance on case write-ups or other projects beyond what is authorized by the assigning instructor. It is also cheating to accept the benefit(s) of another person's theft(s) even if not actively sought. For instance, if one continues to be attentive to an overhead conversation about a test or case write-up even if initial exposure to such information was accidental and beyond the control of the student in question, one is also cheating. If a student overhears a conversation or any information that any faculty member might reasonably wish to withhold from the student, the student should inform the faculty member(s) of the information and circumstance under which it was overheard.

Actions Required for Responding to Suspected and Known Violations

As stated, everyone must abide by the Honor System and be intolerant of violations. If you suspect a violation has occurred, you should first speak to the suspected violator in an attempt to determine if an infraction has taken place. If, after doing so, you still believe that a violation has occurred, you must tell the suspected violator that he or she must report himself or herself to the course professor or Associate Dean of the McCombs School of Business. If the individual fails to report himself or herself within 48 hours, it then becomes your obligation to report the infraction to the course professor or the Associate Dean of the McCombs School of Business. Remember that although you are not required by regulation to take any action, our Honor System is only as effective as you make it. If you remain silent when you suspect or know of a violation, you are approving of such dishonorable conduct as the community standard. You are thereby precipitating a repetition of such violations.

The Honor Pledge

The University of Texas at Austin McCombs School of Business requires each enrolled student to adopt the Honor System. The Honor Pledge best describes the conduct promoted by the Honor System. It is as follows:

"I affirm that I belong to the honorable community of The University of Texas at Austin Graduate School of Business. I will not lie, cheat or steal, nor will I tolerate those who do."

"I pledge my full support to the Honor System. I agree to be bound at all times by the Honor System and understand that any violation may result in my dismissal from the McCombs School of Business."

The following pages provide specific guidance about the Standard of Academic Integrity at the University of Texas at Austin. Please read it carefully and feel free to ask me any questions you might have.

Excerpts from the University of Texas at Austin Office of the Dean of Students website
(http://deanofstudents.utexas.edu/sjs/acint_student.php)

The Standard of Academic Integrity

A fundamental principle for any educational institution, academic integrity is highly valued and seriously regarded at The University of Texas at Austin, as emphasized in the standards of conduct. More specifically, you and other students are expected to "maintain absolute integrity and a high standard of individual honor in scholastic work" undertaken at the University ([Sec. 11-801](#), *Institutional Rules on Student Services and Activities*). This is a very basic expectation that is further reinforced by the University's [Honor Code](#). At a minimum, you should complete any assignments, exams, and other scholastic endeavors with the utmost honesty, which requires you to:

- acknowledge the contributions of other sources to your scholastic efforts;
- complete your assignments independently unless expressly authorized to seek or obtain assistance in preparing them;
- follow instructions for assignments and exams, and observe the standards of your academic discipline; and
- avoid engaging in any form of academic dishonesty on behalf of yourself or another student.

For the official policies on academic integrity and scholastic dishonesty, please refer to [Chapter 11](#) of the *Institutional Rules on Student Services and Activities*.

What is Scholastic Dishonesty?

In promoting a high standard of academic integrity, the University broadly defines scholastic dishonesty—basically, all conduct that violates this standard, including *any act designed to give an unfair or undeserved academic advantage*, such as:

- Cheating
- Plagiarism
- Unauthorized Collaboration
- Collusion
- Falsifying Academic Records
- Misrepresenting Facts (e.g., providing false information to postpone an exam, obtain an extended deadline for an assignment, or even gain an unearned financial benefit)
- Any other acts (or attempted acts) that violate the basic standard of academic integrity (e.g., multiple submissions—submitting essentially the same written assignment for two courses without authorization to do so)

Several types of scholastic dishonesty—[unauthorized collaboration](#), [plagiarism](#), and [multiple submissions](#)—are discussed in more detail on this Web site to correct common misperceptions about these particular offenses and suggest ways to avoid committing them.

For the University's official definition of scholastic dishonesty, see [Section 11-802](#), *Institutional Rules on Student Services and Activities*.

Unauthorized Collaboration

If you work with another person on an assignment for credit *without the instructor's permission to do so*, you are engaging in unauthorized collaboration.

- This common form of academic dishonesty can occur with all types of scholastic work—papers, homework, tests (take-home or in-class), lab reports, computer programming projects, or any other assignments to be submitted for credit.
- For the University's official definitions of unauthorized collaboration and the related offense of collusion, see Sections [11-802\(c\)\(6\)](#) & [11-802\(e\)](#), *Institutional Rules on Student Services and Activities*.

Some students mistakenly assume that they can work together on an assignment as long as the instructor has not expressly prohibited collaborative efforts.

- Actually, students are expected to complete assignments independently unless the course instructor indicates otherwise. So working together on assignments is *not* permitted unless the instructor specifically approves of any such collaboration.

Unfortunately, students who engage in unauthorized collaboration tend to justify doing so through various rationalizations. For example, some argue that they contributed to the work, and others maintain that working together on an assignment "helped them learn better."

- The instructor—not the student—determines the purpose of a particular assignment *and* the acceptable method for completing it. Unless working together on an assignment has been specifically authorized, always assume it is not allowed.
- Many educators do value group assignments and other collaborative efforts, recognizing their potential for developing and enhancing specific learning skills. And course requirements in some classes do consist primarily of group assignments. But the expectation of individual work is the prevailing norm in many classes, consistent with the presumption of original work that remains a fundamental tenet of scholarship in the American educational system.

Some students incorrectly assume that the degree of any permissible collaboration is basically the same for all classes.

- The extent of any permissible collaboration can vary widely from one class to the next, even from one project to the next within the same class.
- Be sure to distinguish between collaboration that is authorized for a particular assignment *and* unauthorized collaboration that is undertaken for the sake of expedience or convenience to benefit you *and/or* another student. By failing to make this key distinction, you are much more likely to engage in unauthorized collaboration. To avoid any such outcome, always seek clarification from the instructor.

Unauthorized collaboration can also occur in conjunction with group projects.

- How so? If the degree or type of collaboration exceeds the parameters expressly approved by the instructor. An instructor may allow (or even expect) students to work together on one stage of a group project but require independent work on other phases. Any such distinctions should be strictly observed.

Providing another student unauthorized assistance on an assignment is also a violation, even without the prospect of benefiting yourself.

- If an instructor did not authorize students to work together on a particular assignment *and* you help a student complete that assignment, you are providing unauthorized assistance and, in effect, facilitating an act of academic dishonesty. Equally important, you can be held accountable for doing so.
- For similar reasons, you should not allow another student access to your drafted or completed assignments unless the instructor has permitted those materials to be shared in that manner.

Plagiarism

Plagiarism is another serious violation of academic integrity. In simplest terms, this occurs if you represent as *your own work* any material that was obtained from another source, regardless how or where you acquired it.

- Plagiarism can occur with *all* types of media—scholarly or non-academic, published or unpublished—written publications, Internet sources, oral presentations, illustrations, computer code, scientific data or analyses, music, art, and other forms of expression. (See [Section 11-802\(d\)](#) of the *Institutional Rules on Student Services and Activities* for the University's official definition of plagiarism.)
- Borrowed material from written works can include entire papers, one or more paragraphs, single phrases, or any other excerpts from a variety of sources such as books, journal articles, magazines, downloaded Internet documents, purchased papers from commercial writing services, papers obtained from other students (including homework assignments), etc.
- As a general rule, the use of any borrowed material results in plagiarism if the original source is not properly acknowledged. So you can be held accountable for plagiarizing material in either a final submission of an assignment or a draft that is being submitted to an instructor for review, comments, and/or approval.

Using *verbatim* material (e.g., exact words) without proper attribution (or credit) constitutes the most blatant form of plagiarism. However, other types of material can be plagiarized as well, such as *ideas* drawn from an original source or even its *structure* (e.g., sentence construction or line of argument).

- Improper or insufficient paraphrasing often accounts for this type of plagiarism. (See additional information on [paraphrasing](#).)

Plagiarism can be committed intentionally or unintentionally.

- Strictly speaking, any use of material from another source without proper attribution constitutes plagiarism, regardless why that occurred, and any such conduct violates accepted standards of academic integrity.
- Some students deliberately plagiarize, often rationalizing this misconduct with a variety of excuses: falling behind and succumbing to the pressures of meeting deadlines; feeling overworked and wishing to reduce their workloads; compensating for actual (or perceived) academic or language deficiencies; and/or justifying plagiarism on other grounds.
- But some students commit plagiarism without intending to do so, often stumbling into negligent plagiarism as a result of sloppy notetaking, insufficient paraphrasing, and/or ineffective proofreading. Those problems, however, neither justify nor excuse this breach of academic standards. By misunderstanding the meaning of plagiarism and/or failing to cite sources accurately, you are much more likely to commit this violation. Avoiding that outcome requires, at a minimum, a clear understanding of plagiarism *and* the appropriate techniques for scholarly attribution. (See related information on [paraphrasing](#); [notetaking and proofreading](#); and [acknowledging and citing sources](#).)

By merely changing a few words or rearranging several words or sentences, you are *not* paraphrasing. Making minor revisions to borrowed text amounts to plagiarism.

- Even if properly cited, a "paraphrase" that is too similar to the original source's wording and/or structure is, in fact, plagiarized. (See additional information on [paraphrasing](#).)

Remember, your instructors should be able to clearly identify which materials (e.g., words and ideas) are your own *and* which originated with other sources.

- That cannot be accomplished without proper attribution. You must give credit where it is due, acknowledging the sources of any borrowed passages, ideas, or other types of materials, and enclosing any verbatim excerpts with quotation marks (using block indentation for longer passages).

Plagiarism & Unauthorized Collaboration

[Plagiarism](#) and [unauthorized collaboration](#) are often committed jointly.

By submitting *as your own work* any unattributed material that you obtained from other sources (including the contributions of another student who assisted you in preparing a homework assignment), you have committed plagiarism. And if the instructor did not authorize students to work together on the assignment, you have also engaged in unauthorized collaboration. Both violations contribute to the same fundamental deception—representing material obtained from another source as your own work.

Group efforts that extend beyond the limits approved by an instructor frequently involve plagiarism in addition to unauthorized collaboration. For example, an instructor may allow students to work together while researching a subject, but require each student to write a separate report. If the students collaborate while writing their reports *and* then submit the products of those joint efforts as individual works, they are guilty of unauthorized collaboration as well as plagiarism. In other words, the students collaborated on the written assignment without authorization to do so, and also failed to acknowledge the other students' contributions to their own individual reports.

Multiple Submissions

Submitting the same paper (or other type of assignment) for two courses *without prior approval* represents another form of academic dishonesty.

You may not submit a substantially similar paper or project for credit in two (or more) courses unless expressly authorized to do so by your instructor(s). (See [Section 11-802\(b\)](#) of the *Institutional Rules on Student Services and Activities* for the University's official definition of scholastic dishonesty.)

You may, however, re-work or supplement previous work on a topic with the instructor's approval.

Some students mistakenly assume that they are entitled to submit the same paper (or other assignment) for two (or more) classes simply because they authored the original work.

Unfortunately, students with this viewpoint tend to overlook the relevant ethical and academic issues, focusing instead on their own "authorship" of the original material and personal interest in receiving essentially double credit for a single effort.

Unauthorized multiple submissions are inherently deceptive. After all, an instructor reasonably assumes that any completed assignments being submitted for credit were actually prepared for that course. Mindful of that assumption, students who "recycle" their own papers from one course to another make an effort to convey that impression. For instance, a student may revise the original title page or imply through some other means that he or she wrote the paper for that particular course, sometimes to the extent of discussing a "proposed" paper topic with the instructor or presenting a "draft" of the paper before submitting the "recycled" work for credit.

The issue of plagiarism is also relevant. If, for example, you previously prepared a paper for one course and then submit it for credit in another course without citing the initial work, you are committing plagiarism—essentially "self-plagiarism"—the term used by some institutions. Recall the broad scope of [plagiarism](#): all types of materials can be plagiarized, including unpublished works, even papers you previously wrote.

Another problem concerns the resulting "unfair academic advantage" that is specifically referenced in the University's definition of scholastic dishonesty. If you submit a paper for one course that you prepared and submitted for another class, you are simply better situated to devote more time and energy toward fulfilling other requirements for the subsequent course than would be available to classmates who are completing all course requirements during that semester. In effect, you would be gaining an unfair academic advantage, which constitutes academic dishonesty as it is defined on this campus.

Some students, of course, do recognize one or more of these ethical issues, but still refrain from citing their authorship of prior papers to avoid earning reduced (or zero) credit for the same works in other classes. That underlying motivation further illustrates the deceptive nature of unauthorized multiple submissions.

An additional issue concerns the problematic minimal efforts involved in "recycling" papers (or other prepared assignments). Exerting minimal effort basically undercuts the curricular objectives associated with a particular assignment and the course itself. Likewise, the practice of "recycling" papers subverts important learning goals for individual degree programs and higher education in general, such as the mastery of specific skills that students should acquire and develop in preparing written assignments. This demanding but necessary process is somewhat analogous to the required regimen of athletes, like the numerous laps and other repetitive training exercises that runners must successfully complete to prepare adequately for a marathon.

Tentative Class Schedule and Timeline of Course Project

All readings correspond to Bodie, Kane, and Marcus, 10th Edition, or 9th Edition.

Schedule subject to change, please check the latest version via Canvas.

Week 1		<p>Wednesday, 01/18</p> <p><u>The Investment Environment</u></p> <ul style="list-style-type: none"> - Ch 1 & Ch 2 (10th Edition) - Ch 1 & Ch 2 (9th Edition)
Week 2	<p>Monday, 01/23</p> <p><u>Valuing Investment</u></p> <ul style="list-style-type: none"> - Ch 5 (10th Edition) - Ch 5 (9th Edition) 	<p>Wednesday, 01/25</p> <p><u>Risk and Return</u></p> <ul style="list-style-type: none"> - Ch 5 (10th Edition) - Ch 5 (9th Edition) - HW 1 Assigned
Week 3	<p>Monday, 01/30</p> <p><u>Portfolio Choices: I</u></p> <ul style="list-style-type: none"> - Ch 6 (10th Edition) - Ch 6 (9th Edition) - Group allocation announced - Trading platform 	<p>Wednesday, 02/01</p> <p><u>Portfolio Choices: II</u></p> <ul style="list-style-type: none"> - Ch 7 (10th Edition) - Ch 7 (9th Edition) - HW 1 Due - HW 2 Assigned
Week 4	<p>Monday, 02/06</p> <p><u>Portfolio Choices: III(Practice)</u></p> <ul style="list-style-type: none"> - Ch 7 (10th Edition) - Ch 7 (9th Edition) 	<p>Wednesday, 02/08</p> <p><u>CAPM: Theory</u></p> <ul style="list-style-type: none"> - Ch 9 (10th Edition) - Ch 9 (9th Edition) - HW 2 Due - HW 3 Assigned
Week 5	<p>Monday, 02/13</p> <p><u>CAPM: Empirical</u></p> <ul style="list-style-type: none"> - Ch 10 & 13 (10th Edition) - Ch 10 & 13 (9th Edition) 	<p>Wednesday, 02/15</p> <p><u>The Efficient Market Hypothesis</u></p> <ul style="list-style-type: none"> - Ch 11 (10th Edition) - Ch 11 (9th Edition) - HW 3 Due - HW 4 Assigned

Week 6	<p>Monday, 02/20 <u>Midterm I</u></p>	<p>Wednesday, 02/22 <u>Structured Finance, Index and ETFs</u></p> <ul style="list-style-type: none"> - Group names/Trading Strategy - Getting ready for the project presentation - Introducing course project
Week 7	<p>Monday, 02/27 <u>Trading Activity</u></p> <ul style="list-style-type: none"> - Ch 2 & Ch 3 (10th Edition) - Ch 2 & Ch 3 (9th Edition) - Submit investment game presentation slides and prospectus 	<p>Wednesday, 03/01 <u>Project Presentation</u> <u>Trading Activated</u></p> <ul style="list-style-type: none"> - HW 5 Assigned
Week 8	<p>Monday, 03/06 <u>Equity Valuation I</u></p> <ul style="list-style-type: none"> - Ch 18 (10th Edition) - Ch 18 (9th Edition) 	<p>Wednesday, 03/08 <u>Equity Valuation II</u></p> <ul style="list-style-type: none"> - Ch 19 (10th Edition) - Ch 19 (9th Edition) - HW 5 Due
Week 9	Spring Break	Spring Break
Week 10	<p>Monday, 03/20 <u>Bond Basics</u></p> <ul style="list-style-type: none"> - Ch 14 (10th Edition) - Ch 14 (9th Edition) 	<p>Wednesday, 03/22 <u>Bond Markets (Government and Corporate)</u></p> <ul style="list-style-type: none"> - Ch 2 & Ch 14 (10th Edition) - Ch 2 & Ch 14 (9th Edition) - HW 6 Assigned
Week 11	<p>Monday, 03/27 <u>Term Structure of Interest Rates</u></p> <ul style="list-style-type: none"> - Ch 15 (10th Edition) - Ch 15 (9th Edition) 	<p>Wednesday, 03/29 <u>Interest Rate Risk and Bond Portfolios</u></p> <ul style="list-style-type: none"> - Ch 16 (10th Edition) - Ch 16 (9th Edition) - HW 6 Due

Week 12	<p>Monday, 04/03 <u>Midterm II</u></p>	<p>Wednesday, 04/05 <u>Derivatives: Futures</u></p> <ul style="list-style-type: none"> - Ch 20 (10th Edition) - Ch 22 (9th Edition) - HW 7 Assigned
Week 13	<p>Monday, 04/10 <u>Derivatives: Option I</u></p> <ul style="list-style-type: none"> - Ch 20 (10th Edition) - Ch 20 (9th Edition) 	<p>Wednesday, 04/12 <u>Derivatives: Option II</u></p> <ul style="list-style-type: none"> - Ch 21 (10th Edition) - Ch 21 (9th Edition) - HW 7 Due - HW 8 Assigned
Week 14	<p>Monday, 04/17 <u>Derivatives: Options and other strategies</u></p> <ul style="list-style-type: none"> - Ch 22 (10th Edition) - Ch 22 (10th Edition) - Trading ends today 	<p>Wednesday, 04/19 <u>Structured Finance and Performance Evaluation</u></p> <ul style="list-style-type: none"> - Ch 2 & Ch 24 (10th Edition) - Ch 2 & Ch 24 (9th Edition) - HW 8 Due - Project Assignment (letter to investors) -
Week 15	<p>Monday, 04/24 <u>Behavioral Finance I</u></p> <ul style="list-style-type: none"> - Ch 12 (10th Edition) - Ch 12 (9th Edition) 	<p>Wednesday, 04/26 <u>Behavioral Finance II</u></p> <ul style="list-style-type: none"> - Ch 12 (10th Edition) - Ch 12 (9th Edition)
Week 16	<p>Monday, 05/01 <u>Final Review</u></p>	<p>Wednesday, 05/03 Final Exam</p>

Appendix

Investment Game: Active Asset Management

(Tentative rules: subject to change until game kickoff (01/30))

Goal

The goal of this game is to give you the opportunity to act as a fund manager and develop your understanding and intuition about all main aspects of portfolio management.

Overview

Students will be randomly assigned into teams. Each team represents the management of an active mutual fund. Group will prepare and submit their fund prospectuses and presentation slides on *Monday, Feb 27th*. Trading will start *Wednesday, March 1st* and end on *Monday, April 17th*. Each fund must be active (i.e., as opposed to being passive and simply tracking a benchmark). Each group starts with 100 transactions and must conduct a minimum of 20 trades. Each team should define and document the fund's investment objectives as described below. Teams should raise funds from classmates who will act as “financial advisors” representing individual clients¹. This game emphasizes not only the portfolio construction, but also the importance of the communication and marketing aspects of investment management. Students are encouraged to utilize various research resources, such as the Wall Street Journal, Financial Times, Reuters.com, Bloomberg, Morningstar.com, Valueline.com, Thomson Investext Plus database, Mergent Online database, WRDS database, Hoovers Online database, LexisNexis database, Standard and Poors Industry Surveys and Stock Reports(NetAdvantage), etc.

Tentative Game Timeline

Date	Event
Week 2 (01/30)	Group Assigned Introduce trading platform
Week 6 (02/22)	Introduction of the course project
Week 7 (02/27)	Funds submit prospectuses and presentation slides
Week 8 (03/01)	In-class presentation Trading kicks off
Week 10 (03/20)	Announce of the first time fund raised from “financial advisors”
Week 8 to Week 14	Trading
Week 15 (04/26)	Submit letters to investors

Fund prospectus

The fund prospectus is a 2 page document and should contain the following sections:

1. Fund Name

You are free to choose any name for your fund, as long as it is not too generic (e.g., “Mutual Fund”).

2. Investment Objectives and Benchmark

These are the fund's goals and the types of securities chosen to achieve those goals. In this section you should disclose the fund's benchmark (including ticker symbol and/or ISIN). Types of investment objectives include long-term capital

¹ This will be part of an assignment and will be explained in details later in the course. But I can anticipate that “financial advisors” are not allowed to invest in their own funds.

growth, stable income, high total return, etc. Mutual funds cannot change these objectives after the prospectus is submitted.

3. Risks of Investing in the Fund

Because investors have varying degrees of risk tolerance, the risk section of a prospectus is very important. It details the risks associated with a particular fund, such as credit risk, interest rate risk, market risk, etc.

4. Management

Here you should inform your investors about how your group will be compensated. In reality, there are dozens of different types of fees charged by funds. For simplicity we will consider the most common fee: management fee. To keep prospectuses as comparable as possible with each other, you should make sure to express the management fees charge by your fund as % of fund net asset value (NAV) per year.

- a. Management fees: these should be expressed in % of fund NAV for the entire eight week period.
- b. Performance fees: these should be expressed in % of excess fund returns over the benchmark (defined in the first section of the prospectus). Performance fees will be accounted at the end of the eight week period.

5. Fund Management

A short description of the fund's managers. This should include information about the manager's relative expertise and different roles in the fund management.

6. Evaluation of the Mutual Fund Management Project

There are two components to the final project grade:

- 1) 40%: Fund Team Presentation. Groups will be evaluated by an outside guest panel. Although I will not evaluate the presentations, I strongly suggest groups to practice at least a few times before the event. I also suggest groups to carefully think about the material presented: the information should be insightful and relevant for potential clients. Groups should also be well prepared to answer questions from the panel members and from the audience.
- 2) 30%: Total fees collected by the fund until the last trading date: The procedure is the following: funds will be ranked based on the amount of collected fees. The top third of the groups earns 100% of available points. The second third earns 85% of available points. The bottom third earns 80% of available points.
- 3) 30%: Letter to investors. Here groups should briefly discuss the performance of their funds to their clients. I will provide more details about this later in the course.

Note that the prospectus will not be graded. However, the prospectus is important since it will affect how your classmates invest in your fund. The prospectus in fact is evaluated indirectly through the amount of funds raised by your fund.