



Syllabus

FIN 367 Investment Management, Spring 2018

(Last updated on 1/16/2018)

Prof. Mindy Xiaolan Zhang, Ph.D. (First Half)

Prof. Andres Donangelo, Ph.D., CFA (Second Half)

Contact Information

First Half of the Course (from 01/16 to 03/07)

instructor Prof. Zhang
phone: (512) 232-6841
e-mail: xiaolan.zhang@mcombs.utexas.edu
personal webpage: <https://sites.google.com/site/xiaolanmindy Zhang/>
office: GSB 6.316
office hours: Tue 4:00pm–5:00pm, Thu 4:00pm–5:00pm (or by appointment)

Second Half of the Course (from 03/19 to 05/02)

instructor Prof. Donangelo
phone: (512) 232-2628
e-mail: andres.donangelo@mcombs.utexas.edu
personal webpage: <http://faculty.mcombs.utexas.edu/donangelo/>
office: GSB 6.308
office hours: TBA

Entire Course

teaching assistant Jae Chung
e-mail: jae.chung@mcombs.utexas.edu
office: CBA 5.324D
office hours: Mon 12:00pm–1:00pm

teaching assistant Jangwoo Lee
e-mail: jangwoo.lee@mcombs.utexas.edu
office: CBA 5.336
office hours: Tue 2:00pm–3:00pm

teaching assistant David Xiaoyu Yu
e-mail: xiaoyu.xu@mcombs.utexas.edu
office: CBA 1.312A
office hours: Tue 10:00am–11:00am

teaching assistant Mahyar Sefidgaran
e-mail: mahyar.sefidgaran@mcombs.utexas.edu
office: CBA 5.324D
office hours: Fri 10:00am–11:00am

1 Course Overview

1.1 Objective

The course will focus on the application of financial theory to the issues and problems of investment management. Topics will include portfolio optimization and asset allocation, the basics of bond and derivative pricing, the theory of asset pricing models and their implications for investments, as well as evaluating investment management performance.

The main objective of this course is to provide students with a framework for making financial decisions related to Investments. These decisions are relevant for institutional investors (pension, mutual, and hedge funds), individual investors, corporate treasurers, and anyone who seeks to use or understand domestic or international investing.

1.2 Prerequisites

Finance 367 is a Restricted Course for students who are currently enrolled in a major program in the College of Business and Administration. Note that several prerequisites apply for this course and are published in the Course Schedule. Prior completion of Finance 357 or Finance 357 H, Statistics 371G or Statistics 371 H are among these requirements. In addition, proficiency in mathematics and spreadsheet packages is assumed. Students who are uncertain as to whether they satisfy these requirements should notify the instructor.

1.3 Course Materials

- **Lecture Notes:** these are the main course text and material to prepare for your exams. Lecture notes will be handed out at the beginning of each class day. These handouts will include all the formulas you need to solve problems, as well as a broad overview of the material we discuss in class. You will need to attend and take your own notes during class for many important discussions and topics not on the handouts but that also comprise material covered in the exams.
- **Calculator.** Any calculator capable of power and logarithm operations is acceptable (in the unlikely case that you don't already have a calculator, the [TI-30XS](#) is cheap and more than capable for our needs). You will need to use the calculator in the exams, so you cannot replace it with your phone or computer. Please bring your calculator to class every day.
- **Textbook:** Investments by Zvi Bodie, Alex Kane, and Alan Marcus, 10th or 9th Editions. This textbook is a valuable additional reference for the material we teach

in the course. However, exam and homework questions will be more closely related to lecture notes and discussions. Because of that, and because this textbook is so expensive, there is no need to purchase the latest edition (i.e., the 11th Edition). We will not use Connect or any other electronic service offered by the textbook's editor.

1.4 Grading

You can collect up to 100 points in this course as follows:

1. Four Exams (80 points).
2. Assignments (15 points).
3. Participation (5 points).

1.4.1 Exams

- The four exams given during the semester will carry equal weight toward your final grade. Exams will be noncumulative. The tests will include both qualitative and quantitative material. The qualitative questions are usually short answer or multiple choices. The exams will cover topics from the lecture notes, class discussions, assignments, and, to a lesser extent, assigned readings from the textbook. Needless to say: the best way to prepare for the exams is to keep up with the course material throughout the semester.
- No makeup examinations will be given without the prior consent of the instructor. Such consent will only be given for demonstrable conflicts and with the proper documentation.
- Each exam will be graded on a scale from 0 to 20 points.
- Your lowest exam score will be dropped from your final total exam score (up to the 80 points). Your total exam score will be calculated as the maximum of:
 - (a) $\frac{80}{60}(E1 + E2 + E3)$ (i.e., total score if fourth exam score is dropped)
 - (b) $\frac{80}{60}(E1 + E2 + E4)$ (i.e., total score if third exam score is dropped)
 - (c) $\frac{80}{60}(E1 + E3 + E4)$ (i.e., total score if second exam score is dropped)
 - (d) $\frac{80}{60}(E2 + E3 + E4)$ (i.e., total score if first exam score is dropped)

where E1, E2, E3, and E4 represent your scores in the first, second, third and fourth exam scores, respectively. There is no decision to be made by students: we will automatically select the option that benefits you the most.

1.4.2 Assignments

- Assignments are due before class a week after they are made available. You can either give me your assignment just before lecture or you can take it to the Finance department reception (CBA 6.222). If you chose the latter, make sure to time stamp it (as evidence that you in fact met the deadline), and ask one of our assistants to place it in our mailboxes. Keep in mind that the Finance department is only open from 8am until 5pm (weekdays).
- Students must submit their assignment solutions individually. However, we encourage you to discuss and work on the assignments with your classmates.
- If you get stuck on any problem, do not hesitate to come to our office hours for help. In total, our TAs and the instructor in charge of the course half offer at all times 6 different options of hours of office hours per week to make sure that at least one suits you. Make sure to take advantage of this resource!
- Late homeworks will not be accepted. No exceptions! If you cannot make it to the class in which a homework is due, please take your homework to the Finance department reception (CBA 6.222), time stamp it (as evidence that you in fact met the deadline), and ask one of our assistants to place it in the instructor's mailbox.
- We will have a total of 9 assignments, all of which will be graded on a scale from 0 to 100 points). The final assignment score will only take into account your highest 8 scores. Some assignments might be mandatory (i.e., the associated score cannot be dropped from your final assignment score). We will announce this beforehand. Your total assignment grade will be calculated as the average of the highest 8 homework scores x $\frac{15}{100}$. The multiplication by $\frac{15}{100}$ is just a rescaling to make sure that the maximum total assignment score is 15 points.

1.4.3 Participation

The participation grade is meant to improve the quality of our interactions and classroom atmosphere. Being respectful and having a professional attitude towards your classmates, TAs, and instructor, as well as fully abiding by [UT's Honor Code](#) is all you need to earn your full 5 participation points.

1.5 Course Policy

Fairness to Students: We strive to treat students with dignity and fairness. This does not mean that we will always agree with your ideas. If you feel that we have been unfair in any way, please let us know. We know that sometimes it takes courage to do so.

Teaching Notes: Lecture notes will be posted on Canvas after class, but homework solutions will NOT be posted, emailed, or distributed in any other electronic form. You can only collect hard copy of homework solutions in class before lectures. If you miss a class, please go to the instructor's office hours to get a hard copy of the homework solutions.

Grading: There are no verbal appeals of grade changes. Exams will not be returned and can be reviewed only during TA office hours during the two weeks following the reception of the grade. You should submit a written statement explaining the problem within one week of receiving your grade and we will be happy to re-grade any exam or assignment. The entire exam or case will be re-graded and the score may increase, remain the same, or decrease.

Academic Honesty: We take academic honesty very seriously. We expect you to adhere to The McCombs Code of Ethics and to comply with collaboration restrictions noted in the syllabus and on assignments throughout the semester.

2 Important Notifications

2.1 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 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.

2.2 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 day. If you must miss an examination or a group presentation in order to observe a religious holiday, you will be given the opportunity to complete the missed work within a reasonable time after absence.

2.3 Policy on Scholastic Dishonesty

The McCombs School of Business has no tolerance for acts of scholastic dishonesty. The responsibilities of both students and faculty with regard to scholastic dishonesty are described in detail in the BBA Programs Statement on Scholastic Dishonesty at www.mcombs.utexas.edu/BBA/Code-of-Ethics.aspx. By teaching this course, we have agreed to observe all faculty responsibilities described in that document. By enrolling in this class, you have agreed to observe all student responsibilities described in that document. If the application of the Statement on Scholastic Dishonesty to this class or its assignments is unclear in any way, it is your responsibility to ask me for clarification. Students who violate University rules on scholastic dishonesty are subject to disciplinary penalties, including the possibility of failure in the course and/or dismissal from the University. Since dishonesty harms the individual, all students, the integrity of the University, and the value of our academic brand, policies on scholastic dishonesty will be strictly enforced. You should refer to the Student Judicial Services website at deanofstudents.utexas.edu/sjs/ to access the official University policies and procedures on scholastic dishonesty as well as further elaboration on what constitutes scholastic dishonesty.

2.4 Campus Safety

Please note the following recommendations regarding emergency evacuation, provided by the Office of Campus Safety and Security, 512-471-5767, www.utexas.edu/safety:

- Occupants of buildings on The University of Texas at Austin campus are required to evacuate buildings when a fire alarm is activated. Alarm activation or announcement requires exiting and assembling outside.
- Familiarize yourself with all exit doors of each classroom and building you may occupy. Remember that the nearest exit door may not be the one you used when entering the building.
- Students requiring assistance in evacuation should inform the instructor in writing during the first week of class.
- In the event of an evacuation, follow the instruction of faculty or class instructors.
- Do not re-enter a building unless given instructions by the following: Austin Fire Department, The University of Texas at Austin Police Department, or Fire Prevention Services office.
- Behavior Concerns Advice Line (BCAL): 512-232-5050

- Further information regarding emergency evacuation routes and emergency procedures can be found at: <http://www.utexas.edu/emergency>.

2.5 Privacy in Canvas

Information in Canvas is protected by your UTEID login. Please be aware that we will use a merged Canvas site for all sections of the course that we are teaching this semester. This will allow students in other sections to see that you are enrolled in the course and send you email from within Canvas. However, they will not actually learn your email address and no other personal data will be revealed through Canvas. If you have any concerns, please contact the ITS Help Desk at 475-9400 for help removing your name from view of other students.

Tentative Schedule for FIN 367, Spring 2018, PART 1/4
(subject to adjustments, see course calendar on Canvas for most updated version)

| Week | Date | Instructor | Topic | Readings* | Homework Due in Class** |
|--------|-------------------|-------------|-----------------------------------------------------------------|---------------------|-------------------------|
| Week 1 | Wednesday, Jan 17 | Prof. Zhang | Course Overview Investment Environment | | |
| Week 2 | Monday, Jan 22 | Prof. Zhang | Valuing Investment | 5.1, 5.2 | |
| | Wednesday, Jan 24 | Prof. Zhang | Risk and Return | 5.4-5.6, 5.8 | |
| Week 3 | Monday, Jan 29 | Prof. Zhang | Portfolio Choice: I | 6.1-6.5, Appendix A | |
| | Wednesday, Jan 31 | Prof. Zhang | Portfolio Choice: II | 7.1-7.3 | HW1 |
| Week 4 | Monday, Feb 5 | Prof. Zhang | Portfolio Choice: III | 7.4 | |
| ∞ | Wednesday, Feb 7 | Prof. Zhang | CAPM: Theory | 9 | HW2 |
| Week 5 | Monday, Feb 12 | | Exam 1 (<i>no lecture this day</i>) (6pm–7:30pm, room TBD) | | |

* Unless otherwise noted, numbers refer to chapter/section from both the 9th and 10th editions of Investments by Bodie, Kane, and Marcus.

** HW<<N>> indicates day that completed homework *N* must be submitted to instructor at the start of the class. Homeworks will be distributed to students the week before the due date.

Tentative Schedule for FIN 367, Spring 2018, PART 2/4
(subject to adjustments, see course calendar on Canvas for most updated version)

| Week | Date | Instructor | Topic | Readings* | Homework Due in Class** |
|--------|--------------------|-------------|-----------------------------------------------------------------|------------|-------------------------|
| Week 5 | Wednesday , Feb 14 | Prof. Zhang | CAPM: Empirical | 13.1, 13.2 | HW3 |
| Week 6 | Monday, Feb 19 | Prof. Zhang | The Efficient Market Hypothesis | 11 | |
| | Wednesday, Feb 21 | Prof. Zhang | Trading Activity | 3 | HW4 |
| Week 7 | Monday, Feb 26 | Prof. Zhang | Equity Valuation I | 18.1-18.3 | |
| | Wednesday, Feb 28 | Prof. Zhang | Equity Valuation II | 18.4 | HW5 |
| Week 8 | Monday, Mar 5 | Prof. Zhang | Review | | |
| | Wednesday, Mar 7 | | Exam 2 (<i>no lecture this day</i>) (6pm–7:30pm, room TBD) | | |
| Week 9 | Monday, Mar 13 | | (Spring Break) | | |
| | Wednesday, Mar 15 | | (Spring Break) | | |

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** HW<<N>> indicates day that completed homework *N* must be submitted to instructor at the start of the class. Homeworks will be distributed to students the week before the due date.

Tentative Schedule for FIN 367, Spring 2018, PART 3/4
(subject to adjustments, see course calendar on Canvas for most updated version)

| Week | Date | Instructor | Topic | Readings* | Homework Due in Class** |
|---------|-------------------|-----------------|-----------------------------------------------------------------|------------------------|-------------------------|
| Week 10 | Monday, Mar 19 | Prof. Donangelo | Bond Basics | 14.1-14.3 | |
| | Wednesday, Mar 21 | Prof. Donangelo | Bond Markets (Gov. and Corporate) | 2.2, 14.4 | |
| Week 11 | Monday, Mar 26 | Prof. Donangelo | Term Structure of Interest Rates | 15.1-15.3 | |
| | Wednesday, Mar 28 | Prof. Donangelo | Interest Rate Risk and Bond Portfolios | 15.4, 16.1, 16.2 | HW6 |
| Week 12 | Monday, Apr 2 | Prof. Donangelo | Forwards and Futures | 22.1, 22.4, 22.5, 23.2 | |
| | Wednesday, Apr 4 | Prof. Donangelo | Derivatives I | 20.1, 20.2, 20.4 | HW7 |
| Week 13 | Monday, Apr 9 | | Exam 3 (<i>no lecture this day</i>) (6pm-7:30pm, room TBD) | | |

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** HW<<N>> indicates day that completed homework *N* must be submitted to instructor at the start of the class. Homeworks will be distributed to students the week before the due date.

Tentative Schedule for FIN 367, Spring 2018, PART 4/4
(subject to adjustments, see course calendar on Canvas for most updated version)

| Week | Date | Instructor | Topic | Readings* | Homework Due in Class** |
|---------|-------------------|-----------------|-----------------------------------------------------------------|------------|-------------------------|
| Week 13 | Wednesday, Apr 11 | Prof. Donangelo | Derivatives II | 21.1-21.3 | |
| Week 14 | Monday, Apr 16 | Prof. Donangelo | Derivatives III | 21.4, 21.5 | |
| | Wednesday, Apr 18 | Prof. Donangelo | Structured Finance and Household Finance | 24 | HW8 |
| Week 15 | Monday, Apr 23 | Prof. Donangelo | Behavioral Finance I | 12.1 | |
| | Wednesday, Apr 25 | Prof. Donangelo | Behavioral Finance II | 12.2 | HW9 |
| Week 16 | Monday, Apr 30 | Prof. Donangelo | Review | | |
| | Wednesday, May 2 | | Exam 4 (<i>no lecture this day</i>) (6pm–7:30pm, room TBD) | | |

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** HW<<N>> indicates day that completed homework *N* must be submitted to instructor at the start of the class. Homeworks will be distributed to students the week before the due date.