

**Instructor**

Jangwoo Lee

Jangwoo.Lee@phd.mcombs.utexas.edu

**Sections**

Monday-Thursday 12:00-2:00 PM in the UTC 3.112

**Office Hours**

Monday-Thursday 2:00-3:00 PM in the PhD Lounge

**Course Web Page**

via Canvas

**Course Objectives**

The core objective of this course is to provide students with a conceptual framework for making financial investment decisions. These decisions are particularly 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.

The course will focus on two basic principles of financial theories, (e.g. diversification and no-arbitrage) and their applications to the issues and problems of investment management. Topics will include: (1) how to allocate money across different financial assets, (2) how to price stocks, bond, options, and futures using classical theories and (3) efficient market hypothesis and behavioral finance.

**Course Outline:****“Theory”**

There are really only two major concepts to master in this class: (1) diversification and (2) no arbitrage. Detailed tentative schedules are in the later pages.

Key Concept	Topics	Learning Objective
<b>Diversification</b>	Stock	CAPM, Multi-factor Model
<b>No-Arbitrage</b>	Bond	Duration
	Derivatives (Futures & Options)	Payoff Diagram / Binomial Model / Black-Scholes

**“Behavioral Finance”**

Key Concept	Topics	Learning Objective
<b>Market Efficiency</b>	Behavioral Finance	Understand how finance theories actually fare in practice

## 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.

## Course Requirements and Grading

Maximum of {Mid-term 1, Mid-term 2} (30%), Final (50%), Homework (20%), Bonus Credits (+)

**Notice that the final is cumulative.** Letter grades for the course will be based on the student's ranking in the course relative to other students (i.e., the curve). The curve will be in line with similar McCombs courses. In general, there will be about 35% A's, 50% B's, and 15% C's or below. Plus/minus grades will be assigned for the final grade (there is no A+ though).

Your grade will be determined solely by the components listed above. If you are taking the course pass/fail you must complete all problem sets and take all exams in order to pass.

## Text and Materials

**Recommended Textbook:** Bodie, Kane & Marcus, Investments, 2014, 10/e, McGraw-Hill, ISBN 978-0840087942.

**Lecture Notes:** Available online on the UT Canvas system. Lecture notes are meant as an outline to reduce the amount of rote copying of definitions and formulas but certainly not as a self-contained lecture summary. Reading the lecture notes without attending class will most likely be of little benefit.

**Additional Readings:** Additional timely readings may be made available as Handouts. If you miss the handouts, it is your responsibility to make copies from another student.

**Strongly Recommended:** Bloomberg.com, WSJ, Financial Times, The Economist, or some other Financial News source

## Homework

There will be two types of homework:

- (1) Questions to ponder about (One point for each week after the first week)

I will ask you to think about some questions and share your thoughts with me from time to time. These questions will be posted in the canvas every Thursday, and are due every Sunday night. You will get full credits as long as you (1) submit answers to these questions one hour before the class and (2) have given some thoughts over the question.

- (2) Problem sets (Five points for each)

You cannot understand finance just by poring over materials and thinking “I get it.” Finance is a quantitative discipline, so you can only master the material by doing the math by yourself.

There will be a total of 4 problem sets, each consisting of 5-10 questions. Each problem set will be equally weighted. Your overall problem set grade will be based on your three best grades (i.e., you may drop one assignment). If you are sick, traveling, or have any other excused or unexcused absence, this may be one of your dropped problem set. You can form a group of 4 members (or less).

## Laptops

Students are not allowed to use laptops in my class.

## Participation

I will give one bonus point for anyone who finds a typo, grammatical error, and mathematical mistake in my class material (i.e. whatever I have written). Searching for such errors not only improves the quality of my class materials, but is also extremely helpful in learning class materials.

## Exams

**All exams will be open-book exams, but no machines (except calculators) are allowed.** Two mid-term exams are not cumulative. However, the Final Exam will be comprehensive and will cover material from lectures, problem sets, and class discussions.

## Calculator

Each student is required to bring a calculator to classes and tests. At a minimum, the calculator must have  $\ln$ ,  $e^x$ , and  $x^y$ , buttons. Although a business calculator is not required for the course, I strongly encourage its use as it will be helpful for this as well as future course work in finance, accounting, and other business disciplines. A student business calculator (such as HP 10bII, TI BAII Plus or calculators with similar capabilities) should be adequate for all business courses. Because of the variety of calculators used, students will be expected to learn how to use their calculators on their own. Programmable calculators must be cleared before each test, and there is no sharing of calculators during any test.

## Email

Students should engage in respectful, formal, and thoughtful use of email to the Instructor (me!). This type of correspondence will be demanded in the business world and students should practice these skills. I will respond to emails, though not on Sunday and some Saturdays. **Please, include “Fin 367” in the subject line of course-related emails.**

## Course Policy

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

*Academic Honesty:* I take academic honesty very seriously. I 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.

**(Tentative) Course Schedule:**

			<b>6/7: Overview</b>
			Overview (BKM) Chapter 1
<b>6/11: Stock</b>	<b>6/12: Stock</b>	<b>6/13: Stock</b>	<b>6/14: Stock</b>
Terminology & A Crash Course On Statistics (BKM) 5.4-5.6, 5.8 [Q1 Due]	Portfolio Theory I: Risk and Return (BKM) Chapter 6	Portfolio Theory II: Diversification (BKM) 7.1-7.4	Portfolio Theory III: Portfolio Optimization (BKM) Chapter 5-7 review
<b>6/18: Stock</b>	<b>6/19: Stock</b>	<b>6/20: Fixed Income</b>	<b>6/21: Fixed Income</b>
CAPM I (BKM) 9 [HW 1 Due] [Q2 Due]	CAPM II and Multifactor Model (BKM) Chapter 10	No Arbitrage & Terminology (BKM) 14.1-14.4	Term Structure of Interest Rates (BKM) Chapter 15
<b>6/25: Bond</b>	<b>6/26: Derivatives</b>	<b>6/27: Midterm 1</b>	<b>6/28: Derivatives</b>
Duration and Swap (BKM) Chapter 16 [HW 2 Due] [Q3 Due]	Basic Terminology (BKM) 20.1 22.1, 22.3	<b>(In-Class Exam) Stocks</b>	Payoff Diagram (BKM) 20.3-20.5
<b>7/2: Derivatives</b>	<b>7/3: Derivatives</b>	<b>7/4: 4<sup>th</sup> of July</b>	<b>7/5: Behavioral Finance</b>
Single Period Binomial Tree (BKM) 21.1-21.3 [HW 3 Due] [Q4 Due]	Black-Scholes, Multi-period Binomial Trees (if time allows) (BKM) 21.4-21.5	<b>Independence Day (Celebrate with Your Friends!)</b>	Efficient Market Hypothesis (BKM) Chapter 11, 13.3
<b>7/9 : Applications</b>	<b>7/10: Midterm 2</b>	<b>7/11: Behavioral Finance</b>	<b>7/12: Wrap-up</b>
Mutual Funds / Mortgage Loans / Automobile Leases [HW 4 Due] [Q5 Due]	<b>Bonds and Derivatives</b>	Market Anomalies and Bubbles (BKM) Chapter 11, 12	Q&A and Final Comments

\*BKM refers to Bodie, Kane, and Marcus. Though not strictly required, these readings would help your understanding of the materials.

## Important Notifications

### Students with Disabilities

Students with disabilities may request appropriate academic accommodations from the Division of Diversity and Community Engagement, Services for Students with Disabilities, 512-471-6259, <http://www.utexas.edu/diversity/ddce/ssd/>.

### Religious Holy Days

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.

### 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 Program's Statement on Scholastic Dishonesty at <http://www.mcombs.utexas.edu/BBA/Code-of-Ethics.aspx>. By teaching this course, I 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 <http://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.

### Campus Safety

Please note the following recommendations regarding emergency evacuation, provided by the Office of Campus Safety and Security, 512-471-5767, <http://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>.