
INVESTMENT THEORY

FINANCE 34600

UNIVERSITY OF NOTRE DAME, LONDON CENTRE
MENDOZA COLLEGE OF BUSINESS
SPRING SEMESTER 2008

Professor Shane A. Corwin
Office: 4:02
Extension: 7851
Email: scorwin@nd.edu

Office Hours:
Mon. & Wed. 2:30-3:30
or by appointment

CLASS MEETINGS: M & W
12:45-2:00
Room 1:06

PREREQUISITES: FIN 251 and BA 230

TEXTBOOK: Bodie, Zvi, Alex Kane, and Alan J. Marcus (BKM)
Essentials of Investments, 7th Ed., McGraw Hill-Irwin, 2008.

SUPPLEMENTARY MATERIALS:

Course Notes and additional readings will be distributed in class. Daily reading of the *Wall Street Journal* or a similar source is strongly recommended. Assignments, problem solutions, and other class-related items are available on the class web page at: www.nd.edu/~scorwin/fin34600

OBJECTIVES:

The objective of this course is to expose students to the fundamental concepts of investment theory, financial markets, and financial instruments. The course provides a detailed presentation of the theory and application of stock, bond, and options investing. The course also provides an overview of various financial instruments and the marketplaces in which they trade. After this course, you should have a basic understanding of risk and return, portfolio theory, the capital asset pricing model, bond pricing, interest rate risk, options, and market efficiency.

ACADEMIC HONESTY:

All students must comply with University policies for conduct and academic honesty at all times during this course. These policies are outlined in the Notre Dame *Academic Code of Honor Handbook* at www.nd.edu/~hnr/code. Any violations of these policies will result in referral to the appropriate administrative body.

COURSE REQUIREMENTS:

- (1) Attendance is required and students are responsible for all material and assignments presented in class.
- (2) Students are expected to have required readings and assignments completed before each class. Late assignments will be severely penalized and may result in a score of zero. Suggested problems from the text will be assigned but will not be graded. These suggested problems are representative of the kinds of questions that will be on the exams. However, students are encouraged to complete all of the questions and problems associated with the assigned readings. Note that at least 10% of each exam will consist of problems from the text.
- (3) Examinations will be given on announced days during regular class periods (or other scheduled times). No make-up exams will be given without prior approval from the instructor or a University excused absence. Exams missed without prior approval will result in a score of zero without exception!
- (4) If it benefits you, I will replace your lowest exam score with your percentage score on the final exam. Note that this does NOT apply to exams missed without prior approval.

Exams: There will be two exams during the semester in addition to the final exam. Questions will be taken from class notes, assigned readings, and the text. The final exam is comprehensive and is designed to test the student's knowledge of the basic concepts of investment theory and application. Again, note that at least 10% of each exam will consist of problems from the text.

Investment Simulation: Each student will be assigned to a portfolio-management group of 2 students (or you may work individually). Each group will manage a portfolio of \$500,000. Details on the policies regarding this portfolio simulation will be outlined in class. At the end of the simulation, each group will complete a performance evaluation project. As described below, your final grade will reflect your performance on this assignment and your timely completion of all work related to the investment simulation, NOT on the return of your portfolio.

Group Assignments and In-class Project: In addition to the investment simulation, several smaller projects will also be assigned during the semester. These projects are to be completed by the members of your investment management group. Students will also be expected to participate in an in-class IPO project during the semester.

GRADE DETERMINATION:

Final grades will be determined based on the percentage of total points earned. Available points are as follows:

Group and In-class projects:		
Project 1 – IPO Trading Game	25 points	(4.2%)
Project 2 – Portfolio Theory Project	25 points	(4.2%)
Project 3 – CAPM Project	25 points	(4.2%)
Project 4 – Interest Rate Risk Project	25 points	(4.2%)
Investment Simulation and Final Project (due Mon. April 28 th)	100 points	(16.7%)
Exam 1 – Wednesday, February 13 th	100 points	(16.7%)
Exam 2 – Wednesday, April 2 nd	100 points	(16.7%)
Final Exam – (see final exam schedule)	200 points	(33.3%)
TOTAL	600 points	

COURSE OUTLINE*

Dates	Lecture Topic	Assignment
1/14-1/16	(1) Securities Markets and Trading	BKM 2, 3, 4
1/21-1/23	(1) Securities Markets and Trading	
1/28-1/30	(1) Securities Markets and Trading	
2/4-2/6	(2) Portfolio Theory	BKM 5, 6.1-6.4, 19.3-19.4
2/11-2/13	(2) Portfolio Theory	
Exam 1 – Wednesday, February 13th		
2/18-2/20	2) Portfolio Theory	
2/25-2/27	(3) Pricing Securities	BKM 6.5-6.6, 7
<i>SPRING BREAK – March 3-7</i>		
3/10-3/12	(3) Pricing Securities	
3/17-3/19	(4) Efficient Markets and Behavioral Finance	BKM 8, 9
<i>EASTER BREAK – March 24</i>		
3/26	(5) Portfolio Performance Evaluation	BKM 18
3/31-4/2	(5) Portfolio Performance Evaluation	
Exam 2 – Wednesday, April 2nd		
4/7-4/9	(6) Fixed Income Securities	BKM 10, 11
4/14-4/16	(6) Fixed Income Securities	
4/21-4/23	(7) Options	BKM 15, 16
4/28	(7) Options	
Final Portfolio Project – due Monday, April 28th		
Final Exam – (see final exam schedule)		

* BKM is Bodie, Kane, and Marcus, 7th ed. This is a tentative outline and may be subject to change. Students are responsible for any changes announced in class.