
INVESTMENT THEORY

FINANCE 370

MENDOZA COLLEGE OF BUSINESS
UNIVERSITY OF NOTRE DAME
FALL SEMESTER 2004

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Office Hours:
Mon. & Wed. 2:00-3:00
or by appointment

CLASS MEETINGS:

<i>Section 2:</i>	<i>Section 3:</i>
M, W, & F	M, W, & F
9:35-10:25	10:40-11:30
DeBartolo 320	DeBartolo 320

PREREQUISITES: FIN 251 and BA 230

TEXTBOOK: Bodie, Zvi, Alex Kane, and Alan J. Marcus (BKM)
Essentials of Investments, 5th Ed., Irwin - McGraw Hill 2004.

SUPPLEMENTARY MATERIALS:

Course Notes are available at the Copy Shop.

Daily reading of the *Wall Street Journal* or a similar source is strongly recommended. Additional readings will be distributed in class. Assignments, problem solutions, and other class-related items are available on the class web page at: www.nd.edu/~scorwin/fin370/

OBJECTIVES:

To expose students to the fundamental concepts of investment theory, financial markets, and financial instruments. This will include an introduction to portfolio theory, asset pricing and the analytical tools of portfolio management. Financial asset classes, securities markets, and securities trading will also be discussed.

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 will not be taken. However, 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 do 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 three exams during the semester in addition to the final exam. Questions will be taken from class notes and assigned readings from 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 2-3 students). Each group will manage a portfolio of \$100,000. 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: 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:

Exam 1 – Monday, September 20 th	100 points	(14.3%)
Exam 2 – Friday, October 15 th	100 points	(14.3%)
Exam 3 – Monday, November 15 th	100 points	(14.3%)
Group and In-class projects:		
IPO Trading Game	40 points	(5.7%)
Portfolio Theory Project	40 points	(5.7%)
Bond (or CAPM) Project	40 points	(5.7%)
Trading Game and Final Project (due Wednesday, Dec. 8 th)	80 points	(11.4%)
Final Exam – Thursday, December 16 th , 7:30-9:30 p.m.	200 points	(28.6%)
TOTAL	700 points	

COURSE OUTLINE*

WK	LECTURE TOPIC	ASSIGNMENT
1:	(1) Course Overview and Statistical Review	Statistical Review Handout
2:	(1) Introduction to Investments	BKM 2, 4, 5.1-5.4
3:	(2) Securities Markets and Securities Trading	BKM 3, Market Mechanics Handout
4:	(2) Securities Markets and Securities Trading continued	...
Exam 1 – Monday, September 20th		
5:	(3) Portfolio Theory	BKM 5.5-5.6, 6.1-6.4, 21.3 Portfolio Theory Project
6:	(3) Portfolio Theory continued	...
7:	(4) Pricing Securities	BKM 6.5, 7
8:	(4) Pricing Securities continued	...
Exam 2 – Friday, October 15th		
9:	<i>FALL BREAK</i>	
10:	(5) Efficient Markets and Behavioral Finance	BKM 8, 19.1-19.4, 19.9 Efficient Markets Handout
11:	(6) Portfolio Performance Evaluation	BKM 20
12:	(7) Fixed Income Securities	BKM 9, 10 Bond Project
13:	(7) Fixed Income Securities continued	...
Exam 3 – Monday, November 15th		
14:	Finish Fixed Income Securities or begin Options	...
<i>THANKSGIVING BREAK</i>		
15:	(8) Options	BKM 14, 15
16:	(8) Options continued	...
Final Portfolio Project due: Wednesday, December 8th		
Final Exam – Thursday, December 16th, 7:30-9:30 p.m.		

* This is a tentative outline and may be subject to change. Students are responsible for any changes announced in class.