

B722: Syllabus

Business Finance 722 Investment Management Professor Chabi-Yo Fall 2008

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Classroom:	Schoenbaum 215
Class Time:	Tuesdays and Thursdays 5:30pm–7:18pm
Office Hours:	Friday 1:30pm – 3:00pm or by appointment
Course Web Page:	http://carmen.osu.edu

Course Description

Students taking this course should expect to learn about the fundamental principles of investments. The goal of this course is to equip students with the tools necessary to make good investment decisions. As a consequence of this goal, the course is organized around two broad themes. The first theme is the return pattern of different securities. The majority of the course concentrates on this theme. Topics from the first theme include risk and return, portfolio theory, mean variance analysis, the efficient market hypothesis, asset-pricing models, and market frictions. The second theme is the money management industry. Topics for the second theme include performance evaluation, style analysis, and the behavior of money management professionals.

Prerequisites

This is a quantitative course, but it does not focus on mathematical derivations or complicated statistical analysis. You should be facile with basic mathematics, basic statistics, basic accounting, and basic economics. If your understanding of basic statistics (such as means, variances, covariances, random numbers, and linear regression) is shaky or rusty you should review the material.

The primary prerequisite for the course is Business Finance 620. In addition, Economics 200 and 400, Accounting 201 or 212, and Statistics 133. If you are uncertain about whether you meet the prerequisite requirements you should see me.

Course Materials

The lecture notes will be available from the course web page (<http://carmen.osu.edu>). Lecture will cover the most important course topics and will sometimes cover material not found in the book.

The homework assignments will be available on the course website for download.

Required textbook: Bodie, Kane, and Marcus, *Essentials of Investments*, Irwin McGraw-Hill, 2007, 7th edition (ISBN: 0-07-340517-5).

There is a small required case packet available from COP-EZ (Tuttle Parking Garage location). You need the packet to do one of the homework assignments.

Supplemental text (not required): Burton Malkiel, *A Random Walk Down Wall Street*, 2004, 8th edition (ISBN: 0393325350).

Any other required articles will be available on the course web page.

I also encourage students to read a financial newspaper. This includes the Wall Street Journal and the Financial Times.

Homework Assignments

Homework assignments will be available on the course website for download. The main goal of the homework is not to evaluate you, but to provide a framework that will allow you to synthesis the course material. Consequently, the homework (except for the Stock-Track performance report) will be graded on a check/check minus system. A check is equivalent to an "A." Inadequate and/or incomplete homework will receive a check minus which is equivalent to a "B-".

I encourage you to work together and collaborate on the homework assignments. I will accept homework from groups as large as four people. Homework must be handed in on time; I will not give any credit to late homework. You are expected to turn in all homework assignments (I do not throw out the worst assignment).

Quizzes

There will be somewhere between 2 to 8 unannounced quizzes. All of the quizzes will be short and fairly easy. If you remain awake during class time you should be able to get an A on a quiz. You can make-up two missed missed quizzes. You can makeup one missed quiz by summarizing one of the articles that is part of the class reading. The summary must be one page (12 point font, 1.5 spacing). You can also makeup one missed quiz by discussing a recent article in the financial press (e.g., Wall Street Journal, Financial Times, Business Week, etc). The article must be about investments or investing. Your presentation (to the class) should be between 2-4 minutes in length, and you must use at least one powerpoint slide to summarize your discussion. This is the only method to make-up quizzes even if the absence was university or doctor excused.

Midterm and Final Exams

There will be an in-class midterm in week 6 and a final exam. You must take both the midterm and final exam to pass the course. Absence from the midterm or final will only be excused for the most serious reasons, and it must be validated in writing by an accredited professional (for example: a medical doctor). *The midterm is scheduled for October 30.* Both exams are closed book, and the final exam is comprehensive in scope. I will provide all students with a formula sheet.

Class Participation

In my view class participation is what turns a good class into a great class. I encourage everyone to participate in class. I do not give formal credit for class participation, but I will take class participation into account if a student just misses a grade breakpoint. For example, actively participating in class could bump someone from a B+ to a A- if they just missed the A- breakpoint.

Course Grading

Homework Assignments	10%
Quizzes	10%
Midterm Exam	40% or 35%
Final Exam	40% or 45%

Regrade Policy

Although rare, grading mistakes sometimes do occur. If you think there has been a significant mistake in the grading of your exam (more than three points up or down, I am willing to regrade your exam. You must make your request within one week of the return of the exam. You must submit your entire exam for regrading along with a clear and concise written explanation of why you believe the exam was graded incorrectly. I will regrade the entire exam; therefore your exam score may go up, stay the same, or actually go down as a result of a regrade. In my experience, regrade requests often reveal that the regrade requester does not understand the material well.

The only exception to the “regrade the entire exam policy” is if I make a math error adding up the exam score. If you believe I added up your points incorrectly, then you can submit the exam for a recount. In such a case I will only check to see if the points were added up incorrectly. However, you still must submit the recount request within a week.

Lectures

Students are responsible for all material covered in class, and all announcements made in class. Therefore, class attendance is critical to success in this course.

Technology

You need access to a computer and the Internet. Most of the course content is distributed in PDF form. Therefore, you must have access to a PDF viewer such as adobe acrobat reader (you can download this for free at <http://adobe.com>). In addition you need access to Microsoft

Excel for some of the homework assignments. If you desire you may use statistical software such as Minitab or other spreadsheet programs such as Open Office instead of Microsoft Excel. However, I will not help you if you have trouble using such software. You will not need a financial calculator in this course. You do need a regular calculator that can compute square roots and powers.

Fairness

I strive to treat students with dignity and fairness and to be particularly sensitive to the diversity that exists within the student body. Students with disabilities who request help will be given reasonable accommodation with the assistance of the University Office of Disability Services (292-3307).

Academic Misconduct

In accordance with rule 3335-5-487, all instances of alleged academic misconduct will be reported to the department chairperson and the Committee on Academic Misconduct. Academic misconduct is grounds for failing the course and may be grounds for additional sanctions. Academic misconduct includes, but is not limited to, giving and receiving information during an exam and submitting plagiarized work for an academic requirement.

Acknowledgments

The lecture notes are influenced by those used by Professor Karl Diether at Ohio State University, Professor Owen Lamont at Yale University and Professor Tobias Moskowitz at the University of Chicago.

Tentative Course Outline (Subject to Change)

BKM = Bodie, Kane, and Marcus, *Essentials of Investments*, 7th Edition.

Random = Burton Malkiel, *A Random Walk Down Wall Street*, 2004, 8th edition

1. Course Introduction (Sep 25, 2008)

Skim BKM Chapters 1 and 4.

Read Random Chapters 1–2.

2. Financial Markets (Sep 30, 2008)

Please read through the lecture notes before class. I will review this lecture assuming you have read through the notes.

Read BKM Chapters 2–3.

3. Rates of Return (Sept 30, 2008)

4. Risk and Return (Oct 2, 2008)

Read BKM Sections 5.1 – 5.4

5. The Present Value Formula (Oct 7, 2008)

Homework #1 due.

6. Efficient Markets (Oct 9, 2008)

Read “Mr. Thaler Takes on Mr. Fama”

Read Random Chapters 5–8.

7. Introduction to Asset Allocation (Oct 14, 2008)

Read BKM Sections 5.5 – 5.6

8. Portfolio Theory: Two Risky Assets (Oct 16, 2008)

Homework #2 due.

Read BKM Chapter 6

Read Random Chapters 9–10.

9. Mean Variance Analysis (Oct 21, 2008)

Read BKM Chapter 6

10. The CAPM & Multi-Factor Models (Oct 23, 2008)

Homework #3 due.

Read BKM Sections 7.1 – 7.5.

11. Review (Oct 28, 2008)

12. In class midterm (Oct 30, 2008)

13. Testing the CAPM (Nov 4, 2008)

14. Value and Size (Nov 6, 2008)

Read Random Chapter 11.

Homework #4 due.

15. Veteran’s Day (Nov 11, 2008), No classes held

16. Behavioral Finance (Nov 13, 2008)

Read BKM Chapter 9

Homework #5 due.

17. Trading Costs (Nov 18, 2008)

18. Short-Sale Constraints (Nov 18, 2008)

19. The Money Management Industry (Nov 20, 2008)

Read BKM Chapter 18

20. Bond Prices and Yields (Nov 25, 2008)

Homework #6 due.

Read BKM Chapter 10

21. Thanksgiving Day (Nov 27, 2008), No classes held

22. “Trillion Dollar Bet” (Dec 2, 2008)

Read BKM Chapter 18

23. Introduction to Options (Dec 2, 2008)

Read BKM Chapter 15

24. Course Review (Dec 4, 2008)

25. Final Exam (Dec 9, 2008)