

Business Finance 522
Investment Management
Professor Diether
Winter 2007

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Classroom:	Schoenbaum 200
Class Time:	Monday and Wednesday 11:30am – 1:18pm
Office Hours:	Wednesday 1:30pm – 3:15pm 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 429 (Business Finance 620 is also acceptable). 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, 6th edition (ISBN: 007304153x).
- ◆ Supplemental but not required text: Burton Malkiel, *A Random Walk Down Wall Street*.
- ◆ Any 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). Also, I **do not** return your homework assignments. If you wish to have a copy of your homework for later study then you need to make a copy of the homework. I do provide answer keys to the homework after the homework assignment has been turned in.

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. Quizzes cannot be made-up except for serious reasons (illness, death in the family, or a university excused absence), and the absence must be validated in writing by an accredited professional (e.g., a medical doctor). You can makeup the missed quiz following an excused absence 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 make-up two missed unexcused quizzes. You can make up 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 make up 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.

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 February 7. Both exams are closed book, and the final exam is comprehensive in scope. I will provide all students with a formula sheet.

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 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*, 6th Edition.

1. Course Introduction (January 3, 2007)

- ◆ Skim BKM Chapters 1 and 4.

2. Financial Markets (Jan 8, 2007)

- ◆ 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 (Jan 8, 2007)

4. Risk and Return (Jan 10, 2007)

- ◆ Read BKM Sections 5.1 – 5.4

5. Martin Luther King Day (Jan 15, 2007)

- ◆ No class

6. The Present Value Formula (Jan 17, 2007)

- ◆ Homework #1 due.

7. Efficient Markets (Jan 17, 2007)

- ◆ Read “Mr. Thaler Takes on Mr. Fama”
- ◆ Read “Is the Market Rational?”

8. Introduction to Asset Allocation (Jan 22, 2007)

- ◆ Read BKM Sections 5.5 – 5.6

9. Portfolio Theory: Two Risky Assets (Jan 24, 2007)

- ◆ Homework #2 due.
- ◆ Read BKM Chapter 6

10. Mean Variance Analysis (Jan 29, 2007)

- ◆ Read BKM Chapter 6

11. The CAPM & Multifactor Models (Jan 31, 2007)

- ◆ Homework #3 due.
- ◆ Read BKM Sections 7.1 – 7.4

12. Midterm Review (Feb 5, 2007)

13. In class midterm (Feb 7, 2007)

14. Testing the CAPM (Feb 12, 2007)

15. Value and Size (Feb 14, 2007)

16. Behavioral Finance (Feb 19, 2007)

- ◆ Homework #4 due.
- ◆ Read “Putting a Human Face on Economics”

17. Trading Costs (Feb 21, 2007)

18. Short-Sale Constraints (Feb 21, 2007)

19. The Money Management Industry (Feb 26, 2007)

- ◆ Read BKM Chapter 17
- ◆ Read “How the Eggheads Cracked”

20. Bond Prices and Yields: Part I (Feb 28, 2007)

- ◆ Homework #5 due.
- ◆ Read BKM Chapters 9

21. Bond Prices and Yields: Part II (Mar 5, 2007)

- ◆ Read BKM Chapter 10

22. Introduction to Options (Mar 5, 2007)

- ◆ Read BKM Chapter 14

23. Course Review (Mar 7, 2007)

24. Final Exam (Thursday, March 15, 2007)

- ◆ The Final Exam will be from 11:30pm–1:18pm in Schoenbaum 209.