

Business Finance 822
Professor Karl Diether
Fall 2008

[PDF version of the syllabus.](#)

Professor	Karl Diether
Office	814 Fisher Hall
Telephone	614-292-7712
Fax	614-292-2418
Email	karl@diether.org
Classroom	Gerlach 315
Class Time	Tuesday and Thursday 10:30am – 12:18pm Tuesday and Thursday 1:30pm – 3:18pm
Office Hours	Tuesday 3:30pm – 5:00pm 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.

The target of this course is second-year MBAs that are Investment Management or Corporate Financial Management Majors. In general, the course is particularly useful to students that are contemplating a career in the investment industry, investment banking, or other Finance related careers.

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 810 (Analyzing Investment Decisions) or Business Finance 811 (Financial Decision Making). In addition, MBA 800 (Financial Accounting and Reporting) and MBA 870 (Statistical Analysis for Decision Making) are also prerequisites.

Course Materials

- **Course Notes:** The course notes will be available from the course web page (<http://carmen.osu.edu>). The course notes cover the most important course topics but not all the topics we will discuss in class. Also, the course notes will sometimes cover material not found in the book.
- **Required textbook:** Bodie, Kane, and Marcus, *Investments*, Irwin McGraw–Hill, 7th edition.
- **Case Packet:** 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.
- **Homework Assignments:** The homework assignments will be available on the course website for download.
- **Other Required Reading:** Any other required articles will be available on the course web page.
- **Background reading:** Burton Malkiel, *A Random Walk Down Wall Street*, 2004, 8th edition (ISBN: 0393325350).
- **Financial Press:** 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. Two of the homework assignments will be case write–ups. 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).

Final Report

In the final report you will analyze the performance of two mutual funds using historical data. You are to analyze both funds using the the various tools and techniques we will develop and learn this quarter. The final report is due on the last day of class.

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 28.* 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	15%
Final Report	5%
Midterm Exam	35% or 45%
Final Exam	35% 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.

Class

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.

Table Abbreviations

BKM = Bodie, Kane, and Marcus

Course Schedule

Date	Topic	Reading	Homework Due
9/25	<u>Course Introduction</u>	Skim BKM Ch. 1 & 4	
9/30	1. <u>The Financial Market</u> 2. <u>Trading Costs</u> Review: <u>Rates of Return</u>	BKM Ch. 2 & 3.	<u>Shorting and the SEC, Slides (Answers)</u>
10/2	<u>Risk and Return</u>	BKM Ch. 5	
10/7	1. <u>PV Formula, Revisited</u> 2. <u>Efficient Markets,</u>	1. <u>The Law of One Price</u> 2. <u>Mr. Thaler Takes on Mr. Fama.</u> 3. BKM Ch 11.1–11.2	<u>The Law of One Price: Questions , Answer Key</u>
10/9	Notes: <u>Mean Variance Analysis</u> Background: 1. <u>One Risky Asset</u> 2. <u>Two Risky Assets</u>	BKM Ch 6–7	
10/14	<u>The CAPM</u>	BKM Ch. 9	
10/16	Guest Speaker: Taylor Nadauld Topic: The Sub Prime Lending Crisis		
10/21	Case: Ontario Teachers Pension Plan	OTTBP Case in Course Packet	OTTBP Case: <u>Questions, Spreadsheet, Instructions</u>
10/23	Testing the CAPM		
10/28	Midterm		
10/30	Multifactor Models	Ch. 10	
11/4	Anomalies: Value and Size		Testing the CAPM HW
11/6	Behavioral Finance	Ch. 12–13	
11/11	Veterans' Day: No Class		
11/13	The Money Management Industry	BKM Ch 24	
11/17	Performance and Style	BKM Ch 24	
11/19	DFA Case	Course Packet: DFA	DFA Case

		Case	
11/25	Short-Selling	<u>Short-Sale Constraints and Overpricing</u>	
12/2	Bond Prices and Yields	BKM Ch. 14-15	
12/4	Liquidity		Final Report
12/8	Final Exam, 10:30 AM Section: 9:30-12:18 AM		
12/11	Final Exam, 1:30 PM Section: 1:30-3:18 PM		