

School of Economics and Finance

FINA305 Investments

Trimester 1, 2012

COURSE OUTLINE

Names and Contact Details

Coordinator, Lecturer and Tutor: Dr. David Alexander
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Trimester Dates

From Monday 5 March to Friday 8 June.

Withdrawal From Course

1. Your fees will be refunded if you withdraw from this course on or before Friday 16 March 2012.
2. The standard last date for withdrawal from this course is Friday 18 May. After this date, students forced to withdraw due to circumstances beyond their control must apply for permission on an “Application for Associate Dean’s Permission to Withdraw Late” including supporting documentation.

The application form is available from either of the Faculty’s Student Customer Service Desks.

Class Times and Room Numbers

Lectures : TW 9:30-10:20 in GBLT1.

Tutorials : Sign up on S-Cubed (<http://signups.victoria.ac.nz>).

Course Content & Schedule

The following timetable indicates lecture dates, test dates, due dates for tutorial assignments, and the necessary preparatory readings.

M,T,W,Th,F = weekdays L = lecture TA = tutorial assignment BKM= Bodie, Kane, Marcus 9th-edition.

WEEK	DATE	TOPIC/ACTIVITY	READING (BKM)
1	T 6 March	L1 : Economic Role of Financial Markets.	pgs. 1-23
	W 7 March	L2 : Financial Instruments. Historical Returns.	pgs. 28-53, 125-127, 139-146
2	M 12 March	TA1 : Due 9AM	
	T 13 March	L3 : Trading Mechanisms : Market Microstructure.	pgs. 59-86
	W 14 March	L4 : Markowitz Portfolios I : Diversification.	pgs. 196-205
3	M 19 March	TA2 : Due 9AM	
	T 20 March	L5 : Markowitz Portfolios II : Optimality.	pgs. 205-224
	W 21 March	L6 : Index Models I.	pgs. 246-261
4	M 26 March	TA3 : Due 9AM	
	T 27 March	L7 : Index Models II.	pgs. 261-274
	W 28 March	L8 : Active Portfolio Management.	pgs. 819-830, 926-948
5	M 2 April	TA4 : Due 9AM	
	T 3 April	L9 : Mutual Funds. Hedge Funds.	pgs. 92-112, 903-921
	W 4 April	L10 : International Investments.	pgs. 863-896

STUDY BREAK

6	T 24 April	L11 : Fixed-Income I : Interest Rate Risk.	pgs. 508-526
	F 27 April	** Test 1 : 6-8PM **	L1-L10
7	T 1 May	L12 : Fixed-Income II : Passive Risk Management.	pgs. 526-535
	W 2 May	L13 : Fixed-Income III : Active Strategies.	pgs. 535-537
8	M 7 May	TA5 : Due 9AM	
	T 8 May	L14 : Equity Analysis (selective review)	pgs. 548-655
	W 9 May	L15 : Derivatives I : Forwards & Futures. Risk Management.	pgs. 755-778
9	M 14 May	TA6 : Due 9AM	
	T 15 May	L16 : Derivatives II : Swaps. Risk Management.	pgs. 784-810
	W 16 May	L17 : Derivatives III : Options. Risk Management.	pgs. 667-699
10	M 21 May	TA7 : Due 9AM	
	T 22 May	L18 : Derivatives IV : Option Valuation.	pgs. 711-744
	W 23 May	L19 : Theory : Capital Asset Pricing Model	pgs. 280-310
11	M 28 May	TA8 : Due 9AM	
	T 29 May	L20 : Theory : Arbitrage Pricing Theory	pgs. 318-336
	W 30 May	L21 : Theory : Efficient Market Hypothesis	pgs. 343-373
12	T 5 June	L22 : CAPM, APT, EMH : Evidence.	pgs. 407-435
	W 6 June	L23 : Behavioural Finance.	pgs. 381-400
	F 8 June	** Test 2 : 6-8PM **	L11-L23

We will be adhering to this course schedule rigidly but may lessen the depth of coverage for selected topics if we find ourselves falling behind; any adjustments to coverage will be announced clearly in the lectures as well as on Blackboard.

Course Learning Objectives

- C1 describe the different types of mutual funds available in financial markets, and critically analyse their strengths and weaknesses; show how to evaluate the performance of a fund manager (L8,L9 and Test 1).
- C2 use mean-variance portfolio theory to analyse real-world investment problems (L4,L5,L8 and Test 1).
- C3 demonstrate an understanding of portfolio management and pricing in a modern financial market (L1,L2,L3,L8,L9,L10,L12,L13,L15,L16,L17,L18 Test 1 and Test 2).
- C4 perform security analysis, asset allocation and the pricing of equities, bonds and derivatives (L4,L5,L6,L7,L11,L12,L13,L14, Test 1 and Test 2).
- C5 analyse valuations of forward contracts and futures contracts, and explain their use for hedging purposes (L15,L16 and Test 2).
- C6 apply the binomial model and Black-Scholes model to value European and American options, and implement and explain the basic principles of delta-hedging (L17,L18 and Test 2).
- C7 describe and explain the assumptions and reasoning behind the capital asset pricing model, and critically analyse extensions of the model (L19,L22 and Test 2).
- C8 explain the assumptions and reasoning behind the arbitrage pricing theory, show how the model can be applied, and critically analyse the empirical debate surrounding the validity of the APT and CAPM (L20,L22,L23 and Test 2).

Course Delivery

Students must attend all scheduled lectures and tutorials to gain full benefit from the course. In order to prepare for the lectures, students must read the sections of the course text indicated in the course schedule in advance of the lecture. In order to prepare for the tutorials, students must complete Tutorial Assignment (TA) problems that are to be submitted electronically no later than 9AM Monday of the week the associated tutorial is to be held. During the tutorial, students will be required to complete a task based on their solutions to the Tutorial Assignment problems. At the end of the tutorial, students will submit their tutorial work electronically.

Expected Workload

FINA305 is a 15-point course. Each point corresponds to 10 hours of work and so the expected workload for FINA305 is 150 hours. This is composed of 23 hours of lectures, 8 hours of tutorials, 4 hours of tests, and the remaining 115 hours allocated to individual study. A rough guide for the allocation for this 115 hours of individual study is 50 hours of reading, 50 hours working on tutorial assignments, 7.5 hours preparing for Test 1 and another 7.5 hours preparing for Test 2; this will vary from student to student.

Readings

The course is strongly based on the following textbook:

- **Bodie, Kane and Marcus, Investments, McGraw-Hill Irwin, 9th edition**

It is **vital** for students to have ready access to this text throughout the course. Several copies have been placed on reserve in the Commerce Library at the Pipitea campus.

Materials and Equipment

Students will be provided access to Microsoft Excel during their tutorials as well as outside of class times in computer labs. Students may find it convenient for Tutorial Assignment work to have their own copy of Excel (or some other spreadsheet program such as LibreCalc, which is part of the free, open source office suite LibreOffice and is very similar to Microsoft Office - one can download it for free for various operating systems from <http://www.libreoffice.org>).

Students are permitted to use electronic calculators for Test 1 and Test 2 provided the calculators are not programmable and do not have a full set of alphabetic keys.

Assessment Requirements

A student's final grade will be calculated according to the following weighting scheme:

- Test 1: 30%
- Test 2: 30%
- Tutorial Assignments: 30%
- Tutorial Work: 10%

Quality Assurance Note

Your assessed work may also be used for quality assurance purposes, such as to assess the level of achievement of learning objectives as required for accreditation and audit purposes. The findings may be used to inform changes aimed at improving the quality of FCA programmes. All material used for such processes will be treated as confidential, and the outcome will not affect your grade for the course.

Mandatory Course Requirements

- A minimum grade of 40% must be achieved on each of Test 1 and Test 2.
- A minimum grade of 50% must be achieved on the total of all Tutorial Assignments.
- A minimum grade of 50% must be achieved on the total of all Tutorial Work.

Penalties

Any Tutorial Assignments not submitted by the due date or any Tutorial Work not submitted at the end of a tutorial session will be assigned a grade of zero unless a satisfactory medical certificate is provided.

Class Representative

A class representative will be elected in the first class, and that person's name and contact details made available to VUWSA, the Course Coordinator and the class. The class representative provides a communication channel to liaise with the Course Coordinator on behalf of students.

Communication of Additional Information

Information on the course, including lecture slides, tutorial assignments and sample tests along with their solutions, will be distributed via blackboard, which can be found at <http://blackboard.vuw.ac.nz/>.

Use of Turnitin

Student work provided for assessment in this course may be checked for academic integrity by the electronic search engine Turnitin (<http://www.turnitin.com>). Turnitin is an on-line plagiarism prevention tool which compares submitted work with a very large database of existing material. At the discretion of the Head of School, handwritten work may be copy-typed by the School and subject to checking by Turnitin. Turnitin will retain a copy of submitted materials on behalf of the University for detection of future plagiarism, but access to the full text of submissions will not be made available to any other party.

For the following important information follow the links provided:

Academic Integrity and Plagiarism

<http://www.victoria.ac.nz/home/study/plagiarism.aspx>

General University Policies and Statutes

For key dates, explanations of grades and other useful information see <http://www.victoria.ac.nz/home/study>

Find out about academic progress and restricted enrolment at <http://www.victoria.ac.nz/home/study/academic-progress.aspx>

The University's statutes and policies (except qualification statutes) are available at <http://www.victoria.ac.nz/home/about/policy>

The University's qualification statutes are available via the Calendar webpage (Section C) at <http://www.victoria.ac.nz/home/study/calendar.aspx>

Further information about the University's academic processes can be found on the website of the Assistant Vice-Chancellor Academic at http://www.victoria.ac.nz/home/about_victoria/avcacademic/default.aspx

Assistant Vice-Chancellor Academic Website

Information including Conduct, Academic Grievances, Students with Impairments, Student Support can be found at http://www.victoria.ac.nz/home/about_victoria/avcacademic/Publications.aspx

Faculty of Commerce and Administration Offices

<http://www.victoria.ac.nz/fca/studenthelp>

Te Putahi Atawhai : Maori and Pacific Mentoring Programme

<http://www.victoria.ac.nz/tpa/>