
School of Economics and Finance

FINA305 INVESTMENTS

Trimester 1, 2013

COURSE OUTLINE

Names and Contact Details	Office	Telephone
Course Coordinator & Lecturer	David Alexander david.alexander@vuw.ac.nz Office Hours: Mondays, Wednesdays 16:40-17:30 or by appointment.	RH 231 463 5125
Course Administrator	Bonnie Riley bonnie.riley@vuw.ac.nz Office Hours: Monday-Friday 9am-midday and 1-4pm	RH 321 463 5380

Trimester Dates

Teaching Period: Monday 4 March – Friday 7 June

Study Period: Monday 10 June – Thursday 13 June

Examination Period: Friday 14 June – Wednesday 3 July (inclusive)

Withdrawal from Course

1. Your fees will be refunded if you withdraw from this course on or before Friday 15 March 2013.
2. The standard last date for withdrawal from this course is Friday 17 May 2013. After this date, students forced to withdraw by 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: Mondays and Fridays 13:40-14:30 in RH LT 2 (Rutherford House Lecture Theatre 2)

Tutorials: Sign up for a tutorial on S-cubed. (<http://signups.victoria.ac.nz>).

Course Delivery

The course will consist of lectures, tutorial work, two tests, assigned practice exercises and a final examination. Assigned practice exercises will not be collected for assessment and are solely for the purpose of mastering course material and preparation for the tests and exam. Formal lecture time will be used to highlight all key ideas. Tutorials will be used to work through examples of how to apply these ideas. Solutions to assigned practice exercises and tests will be provided, often in Excel, providing students with model solutions for study as well as demonstrating this useful software package.

Expected Workload

This course is a 15-point course. One point is equated to 10 hours of work, which means a total of 150 hours is expected for this course, spread over the 12 teaching weeks, mid-trimester break, study week and the examination period. This involves attending the lectures and tutorials every week, completing all assignments, and preparations for all exams.

Course Learning Objectives

Students who are successful in this course will be able to:

- 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.
- C2 use mean-variance portfolio theory to analyse real-world investment problems.
- C3 demonstrate an understanding of portfolio management and pricing in a modern financial market.
- C4 perform security analysis, asset allocation and the pricing of equities, bonds and derivatives.
- C5 analyse valuations of forward contracts and futures contracts, and explain their use for hedging purposes.
- 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.
- C7 describe and explain the assumptions and reasoning behind the capital asset pricing model, and critically analyse extensions of the model.
- 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.

Course Content

This course introduces students to contemporary techniques for managing investment portfolios. First, we survey the institutions and financial instruments constituting modern financial markets. Next, we examine the statistical characteristics and historical record of financial instruments with a view toward finding portfolios that best satisfy investors' needs for balancing risk and return. We then consider the theoretical consequences of widespread use of optimal portfolio allocations along with the arguments and evidence both supporting and undermining these theoretical assertions. Lastly, we explore the details of managing portfolios of bond, securities and derivative securities, and additional diversification offered by hedge funds and international financial markets.

Course and Schedule

Week	Dates	Topic	Tutorial	Readings
1	4, 8 Mar	Institutions and Instruments		Chapters 1,2,3,4
2	11, 15 Mar	Historical Record of Risk and Return. Risk Aversion. Capital Asset Allocation	Tut 1	Chapters 5,6
3	18, 22 Mar	Optimal Allocations with the Markowitz and Index Models	Tut 2	Chapters 7,8
4	25 Mar	Equilibrium: The CAPM		Chapter 9
EXTENDED EASTER BREAK (Thursday 28 March – Wednesday 3 April (inc))				
5	5 Apr	Equilibrium: The APT		Chapter 10
6	8, 12 Apr	Efficiency: Technical Analysis, Behavioural Finance, Evidence	Tut 3	Chapters 11,12,13

7	15, 19 Apr	Fixed Income I: Bonds **TEST 1**		Chapter 14
MID-TRIMESTER BREAK (Monday 22 April – Sunday 28 April)				
8	29 Apr, 3 May	Fixed Income II: Term Structure. Managing Bond Portfolios	Tut 4	Chapters 15,16
9	6, 10 May	Security Analysis Overview	Tut 5	Chapters 17,18,19
10	13, 17 May	Active Portfolio Management	Tut 6	Chapters 24,27
11	20, 24 May	International Diversification. Hedge Funds	Tut 7	Chapters 25,26
12	27, 31 May	Derivative Markets **TEST 2**	Tut 8	Chapter 20, 21
13	7 Jun	Options, Futures, Swaps, Risk Management		Chapters 22,23

Readings

The prescribed text for this course is: “Investments” by Bodie, Z., Kane, M. and Marcus, A.J. 9th edition, McGraw-Hill Irwin, 2011, which is available in the library as well as at VicBooks (ground floor of Rutherford House at the Pipitea Campus). It is important to have convenient access to this text and to keep up with the readings.

Materials and Equipment

The assigned practice exercises will be solved using Excel. Students will be permitted to use electronic calculators during tests and the exam. These calculators must be non-programmable and cleared of memory prior to the tests and exam. Any formulae needed for the tests or exam will be provided. Lecture slides, solutions to tests, and solutions to practice exercises will be posted on Blackboard.

Examinations

Students who enrol in courses with examinations are obliged to attend an examination at the University at any time during the formal examination period. The final examination for this course will be scheduled at some time during the following period:

14 June – 3 July

Assessment Requirements

- **Two tests** worth 40% of the final grade (each test worth 20%):
 - **Test 1 on Friday 19 April** and will cover all material up to and including week 6.
 - **Test 2 on Friday 31 May** and will cover all material up to and including week 11.**Time and location to be advised.**
- **A final examination** worth 60% of the final grade: the final examination will cover **all** material covered in the lectures, tutorials, tests and practice exercises; the final examination is a closed book, 2 hour, comprehensive exam. **Date to be advised** (see ‘Examinations’ below).

Mandatory Course Requirements

A minimum of 40% must be achieved on each test. A minimum of 50% must be achieved on the final exam.

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

Additional information concerning this course will be provided in lectures and posted on Blackboard: <http://blackboard.vuw.ac.nz>. Urgent notices will be circulated by email.

Link to general information

For general information about course-related matters, go to

<http://www.victoria.ac.nz/vbs/studenthelp/general-course-information>

Note to Students

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 academic audit. The findings may be used to inform changes aimed at improving the quality of VBS programmes. All material used for such processes will be treated as confidential, and the outcome will not affect your grade for the course.
