FINANCE 311  
Principles of Investment  
Fall 2012  

Instructor: Dr. Jim Hsieh  
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Course web: on Blackboard  
Office Hours: By appointment  

Class Meetings  

Mondays & Wednesdays, 3:00-4:15PM, Planetary Hall, Room 127  

The Course Objectives  

This course is an introduction to modern portfolio management and asset valuation. The focus is on institutional investing although the material is also relevant for individuals. The goal is for you to use modern investment strategies and risk-management tools to manage equity and fixed income portfolios. In particular, you will learn the concepts of trading, risk and return, asset allocation, diversification, CAPM, portfolio performance evaluation, and market efficiency.  

Learning Goals (required by the School)  

Upon successful completion of this course, students will be able to (1) demonstrate, evaluate, and explain the risk return trade-offs in finance, (2) recognize and understand how to address ethical issues in finance including agency problems, and (3) conduct research to support the analysis of a firm or financial project and effectively present their analysis.  

Prerequisites  

Students are expected to be facile with basic statistics, economics and accounting. Thus, you are required to have successfully completed ECON103, ACCT 201, and OM 210. In addition, since this is an advanced course in finance, you are required to have completed FNAN301. If students are uncertain as to whether they satisfy the requirement, they should notify the instructor. There are no exceptions to the prerequisite requirements. Taking any of those classes at the same time with this course is not possible.
Course Resources and Supporting Items

Required Textbook
- Solutions Manual for use with BKM.

Optional Textbook and Other Resources
- A calculator is required. Sometimes, class lectures will involve working through problems. Thus, you should have your calculator ready before class starts.
- A subscription to the *Wall Street Journal* is strongly recommended. Other helpful periodicals include Barron’s, Business Week, and other financial newspapers. A sign up form will be distributed during the first week of class. During the term, you may be asked to read certain articles in current business periodicals.
- There are several informative financial web sites:
  - More useful links will be included on the class web site.

Grades

Since this is an advanced course in finance, it inevitably covers more difficult material and concepts than those in FNAN 301. *Students are responsible for putting in sufficient time to study the textbook, course notes, and problems.* I expect this course to be intellectually demanding. My intention is to grade generously, but fair. I will, however, not hesitate to give low grades to those who clearly did not put in sufficient amount of effort. You also will be evaluated on the basis of class participation/attendance.

Your final grade will be based on:

- Class Participation/Attendance: 5%
- Midterm Exam I: (Monday 9/24) 25%
- Midterm Exam II: (Monday 10/29) 30%
- Final Exam: 40% (comprehensive)
- Final Grade 100%

The final exam is scheduled by the University on 12/17 (Monday), starting @ 1:30pm. Students are not allowed to skip any exams. One exception is that you present a physician’s statement attesting to illness on the day of the exam or for an extraordinary reason.

Students’ final letter grades for the course are determined based on the following: A: 92.0 or greater, A-: 89.0 – 91.9, B+: 86.0 – 88.9, B: 82.0 – 85.9, B-: 78.0 – 81.9, C+: 74.0 – 77.9, C: 69.0 – 73.9, D: 60.0 – 68.9, F: 59.9 or less.
Homework Problems

I will assign problems for homework. They will not be collected, but part of exams will be taken either directly or slightly modified from them. Thus, it is important that you do homework problems. Just reading and memorizing the answers to the study questions will not prepare you for the exams. You may find their volume too much to handle alone; the best way to proceed is to work in groups.

Project

Students will work on an *optional* project. Details on the project will be handed out in class after the first exam.

Other Policies

**Appeals:** Exams will be returned in class and the correct answers/problem solutions discussed. A copy of the exam solution will be posted on the web site. Grading errors should be corrected. Before requesting for re-grading your exam, please first check the exam solution on the web site. In case appeals are necessary, they must be in writing within one week after the graded work is made generally available. In general, the entire exam will be checked for grading errors, and correcting these could either raise or lower the overall score.

**University Office of Disability Services:** If you are a student with a disability and you need academic accommodations, please see me and contact the Disability Resource Center (DRC) at (703) 993-2474. All academic accommodations must be arranged through the DRC.

**Academic Misconduct:** It causes failing the course and triggers quite unpleasant university-mandated procedures which result in further sanctions. Faculty Rule 2.11.5 (Faculty Responsibility under the Honor Code) requires alleged academic misconduct to be reported to the department and the Honor Committee. Please! Don’t even think about it.
Course Outline
Lecture notes and other course materials will be posted on the Blackboard. Please
download lecture notes before class. The specified pages are minimum required
readings. Students are encouraged to read other pages to gain additional knowledge
about the topics.

1. Introduction and Basic Concepts
   Chapter 1: page 2–6, 9-16.
   Chapter 2: page 23-42, 45-47.
   Chapter 3: page 52-56, 57-59, 68-72.

2. Probability Background, Capital Markets, and Risk vs. Return

3. Diversification
   Chapter 6: page 145-151, 153-162.

4. CAPM and APT

5. Market Efficiency and Behavioral Finance
   Chapter 8: page 228-236, 240-244, 246-247.

6. Portfolio Performance Evaluation and Mutual Funds
   Chapter 4 is optional.*
   Chapter 18: page 578-586, 588-590, 593, 598-600.

* Students who are not familiar with mutual funds should read this chapter.