Graduate Institute of Finance and Banking

R851400 Theory of Investments (投資學理論)

Fall 2010

The Graduate Institute of Finance and Banking explore and advance theories and models in financial research to cultivate competitive professionals with ethical integrity, innovative capabilities and international perspective to meet business and social needs in the global economy.

General Program Learning Goals (goals covered by this course are indicated):

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<tr>
<td>1</td>
<td>Graduates should be able to communicate effectively verbally and in writing.</td>
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<td>2</td>
<td>Graduates should be able to solve problems strategically and should be creative and innovative in their approach to solving problems</td>
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<td>3</td>
<td>Graduates should possess knowledge and skills that will enable them to think critically and analytically</td>
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<td>4</td>
<td>Graduates should possess necessary skills and values required of a true professional</td>
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Instructor:

Dr. Pinghsun (Ping) Huang

#53441

phuang@mail.ncku.edu.tw

Course Description:

This course is to provide you with a broad knowledge of investment environments and the financial and analytical skills used to value financial assets. The course is divided into five main topics. First, the course will discuss the modern portfolio theory. The theory will demonstrate you how to achieve the best trade-off between portfolio risk and return. Second, it will consider several topics important for portfolio managers, including performance evaluation, international diversification, active management, and some issues in portfolio management. Third, we will study derivative assets such as options and futures. This will guide you how to value derivatives assets and use them for risk management and control. Fourth, the course will introduce fixed-income market and securities. This will show you how to value securities such as bonds and how to measure and manage interest rate risk. Fifth, the course will review the valuation of equity investments. Finally, we will discuss the market structure. This will give you a tour of the major markets in which securities trade, the trading process, and the major players in the financial markets.

Textbook:

Recommended references:

- Wall Street Journal - Daily reading of WSJ is strongly recommended.

Grading policy:

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<th>Component</th>
<th>Percentage</th>
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<tr>
<td>Midterm Paper Critique Exercise (in class)</td>
<td>25%</td>
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<tr>
<td>Comprehensive Final Examination</td>
<td>40%</td>
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<tr>
<td>Group Presentation/class participation/written report</td>
<td>35%</td>
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There will be two closed book examinations, a midterm and a comprehensive final. The last component of your grade will be based on your class performance. In addition to the text, several journal articles will be assigned at appropriate points in the course. Your team consisting of 3-5 members may be assigned to deliver a presentation and to lead the discussion. All the teams are also expected to hand in your written report on the presentation day. Typically, a presentation will last for 90 minutes or even longer. Other students in the class should be prepared to participate in a rigorous discussion of the chapter or the paper.

A presentation of an empirical article should include (1) the motivation and the position in the literature, (2) the main hypotheses and their theoretical foundations, (3) the methodology, (4) the major findings, (5) critiques, and (6) any potential for future research.

A presentation of a theoretical article should comprise (1) the important assumptions underlying the model, (2) the main results, (3) the robustness of the results to deviations in the assumptions, (4) the mathematical derivations, (5) the economic intuition behind the results, and (6) any potential for future research.

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<th>Component</th>
<th>Presentation &amp; Reports</th>
<th>Midterm</th>
<th>Final</th>
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<td>COMMU</td>
<td>35%</td>
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<tr>
<td>Oral Commu./ Presentation</td>
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<td>Written Communication</td>
<td>30%</td>
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<td>CPSI</td>
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<td>Creativity and Innovation</td>
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<td>Problem Solving</td>
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<td>Analytical Skills</td>
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<td>VSP</td>
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<td>Values, Skills &amp; Profess.</td>
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Tentative Course Outline

September 17  Syllabus

September 24  Paper Discussion

October 1   Paper Discussion

October 8   Utility Analysis & Prospect Theory

October 15  Utility Analysis & Prospect Theory (continued)

October 22  FMA Meetings
Paper Critique Exercise (in class)

October 29  Database Discussions
Portfolio Selection Models

November 5  Risk Aversion and Capital Allocation
Read Ch 5 & 6 in BKM

November 12 Risk Aversion and Capital Allocation (continued)
Papers Discussions

November 19  Optimal Risky Portfolio
Read Ch 7 in BKM

November 26  International Diversification
Index Models
Read Ch 8 & 22 in BKM

December 3  Papers Discussions

December 10  The Capital Asset Pricing Model & APT
Read Ch 9 & 10 in BKM

December 17  The Efficient Market Hypothesis
Papers Discussions
Read Ch 11 & 13 in BKM

December 24  Term Structure & Managing Bond Portfolios
Read Ch 15 & 16 in BKM

December 31  Options Markets
Read Ch 20 & 21 in BKM

January 7  Options Markets (continued)

January 14  Comprehensive Final Examination