

Economics 1710: Investments I S01
Fall 2013
MWF 11:00-11:50 am, CIT Center 165

Professor Sylvia Kuo
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Office hours: 2:00-3:00 on Mondays; 12:30-1:30 pm Tuesdays, or by appointment

TAs: Tod Holberton, Mark Poon and Chris Wong
Office hours and location: To be announced on Canvas

Course description

This class discusses the function and operation of asset markets; the determinants of the prices of stocks, bonds, options and futures; the relations between risk, return, and investment management; the capital asset pricing model, normative portfolio management, and market efficiency.

Prerequisites:

1. Intermediate Microeconomics, i.e. ECON 1110 or ECON 1130
2. Econometrics, i.e. ECON 1620, ECON 1630 or APMA 1650

Course materials

1. **Required textbook:** *Investments*, 9th edition by Bodie, Kane and Marcus
2. **Required:** a cheap non-programmable calculator **with exponents** for use during exams.
3. Class website: **canvas.brown.edu**. It will be the repository of all up-to-date information on this class.

Evaluation:

Final grades will be based on performance of:

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| 1. Weekly homework assignments | 30% |
| 2. Exam #1, in class (Wed, Oct 9) | 20% |
| 3. Exam #2, in class (Wed, Nov 13) | 20% |
| 4. Final exam, block 04 (Friday, Dec 20, 2-5 pm) | 30% |

Final grades will be based on the percent of the total points earned by each student. Assignment of final grades will be as follows:

90% or higher	A
80% to <90%	B
70 to <80%	C
Less than 70%	NC

These cutoffs are the guaranteed levels -- if you hit an overall average of 90%, you are guaranteed an "A." On the other hand, you must obtain an overall average of 70% in order to be guaranteed to pass this class. Prof. Kuo, at her discretion, may move the cutoffs depending on the actual grade distributions, but it is not guaranteed and they will only move lower (to your benefit). Because these are strict grading guidelines, I give you a head start with the homework policy (see below) which is what I view as the "minimum participation" bar in this class.

1. Exams 1 and 2 will be held during class and will be based on lecture, homework, section, and the readings. The format will be pencil and paper multiple choice and short problems, and you will be expected to memorize relevant formulas.

2. The final exam is cumulative and will be held during the university designated exam time for this course (exam group 04 (or D): Friday, December 20, 2-5 pm).

3. For exams, a non-programmable calculator is permitted. In particular, a calculator with an exponent function will be most useful (e.g. to calculate $(1.04)^5$ easily) which is \$20 at CVS. However the use of any cell phone is strictly prohibited.

4. Exams may be rescheduled given a legitimate excuse (as deemed by me) before the regularly scheduled exam time. However, **within 48 hours of any exam**, any excused absence and make up will require a note from the dean. Note that a doctor's note is not considered sufficient.

4. All homework is due on **Mondays at the start of class** in my hands (i.e. not in my mailbox). Homework is graded as 0, 1, or 2 based on completion and timeliness. Full credit is obtained by handing in a completed homework that is turned in on time, or full completion turned in by the start of class on Wednesday. No credit is given for extremely poor completion (determined by me), or no assignment turned in by the start of class on Wednesday.

Note that once I have collected the assignments on Monday, the window is closed and time starts ticking for obtaining half credit, meaning that there is no benefit to coming in to class late to turn in homework on Monday relative to turning it in class on Wednesday.

5. Sections meet weekly with the TAs with the purpose of going over homework, tutoring you to learn Excel, teaching a few hands-on applications of class topics and answering any questions you may have in a smaller group setting. Both TAs have held summer internships in finance, and will be sharing parts of that experience with you with additional hands-on material in section. Note that **new material covered in section will be on the exams**. The specific schedule will be announced in class and on Canvas.

6. In the event of any emergency or crisis that occurs (family crisis, medical emergency), please get a dean's note. It is generally good practice to do so since there is no ambiguity to professors or other teaching staff about whether an accommodation is needed, and it also retains your privacy about the situation. **However**, if you are facing an ongoing situation that may impact your performance, I would rather know about it well before an exam, so we can work together to strategize about providing you extra support if needed. There is little I can or will do about exam performance after it is graded.

7. All grades for this class are posted on Canvas so there is complete transparency about all the inputs to your final grade. This means that you bear responsibility for ensuring that your grades are properly recorded. Issues about any homework or exam grades must be initiated within 2 weeks of the posting of that particular grade.

8. Under no circumstances is cheating permitted or tolerated. Note that multiple versions will be in use at every exam. In addition, a copy of every exam will be made.

9. If you are a SEAS student, please let me know ASAP with the documentation and I will make the necessary accommodations. I take your privacy very seriously and will handle your case personally.

10. **Special note**: This semester I am teaching two sections of this class. You are welcome to attend the lecture at the other time if needed and I am having the classes share TA sections and review sessions. **However**, I expect everyone to turn in HOMEWORK and take ALL EXAMS for the assigned times according to the class enrollment.

A final note: This class is an upper-level economics class. Thus, I will treat you as budding economists and will presume that given the information in this syllabus, you now fully informed about the rules of the class, and make your own decisions (accepting the resultant consequences).

The next page is the projected schedule of topics by date (but may be revised during the course of the semester).

MONDAY		WEDNESDAY		FRIDAY
		SEPT 4 INTRODUCTION OVERALL INVESTING ENVIRONMENT CHAPT 1		SEPT 6 REVIEW OF KEY FINANCIAL CONCEPTS
SEPT 9 ASSET CLASSES AND FINANCIAL INSTRUMENTS CHAPT 2; HW #1		SEPT 11 HOW SECURITIES ARE TRADED CHAPT 3		SEPT 13 MUTUAL FUNDS & OTHER INVESTMENT COMPANIES CHAPT 4
SEPT 16 INTRODUCTION TO RISK, RETURN AND THE HISTORICAL RECORD (CHAPT 5); HW #2		SEPT 18 INTRODUCTION TO RISK, CONTD (CHAPTER 5)		SEPT 20 RISK AVERSION AND CAPITAL ALLOCATION TO RISKY ASSETS (CHAPTER 6)
SEPT 23 RISK AVERSION, CONTD (CHAPTER 6) HW #3		SEPT 25 RISK AVERSION, CONTD (CHAPTER 6)		SEPT 27 OPTIMAL RISKY PORTFOLIOS (CHAPTER 7)
SEPT 30 OPTIMAL RISKY PORTFOLIOS CONTD (CHAPTER 7) HW #4		OCT 2 OPTIMAL RISKY PORTFOLIOS CONTD (CHAPTER 7)		OCT 4 CAPM, PART 1 (CHAPTER 9)
OCT 7 CAPM PART 2 (CHAPTER 9)		OCT 9 EXAM 1 (CH 1-7)		OCT 11 CAPM PART 3 (CHAPTER 9)
Oct 14 No CLASS FALL WEEKEND		OCT 16 ARBITRAGE PRICING (CHAPTER 10)		OCT 18 ARBITRAGE PRICING CONTD (CHAPTER 10)
OCT 21 ARBITRAGE PRICING CONTD (CHAPTER 10) HW #5		OCT 23 EFFICIENT MARKET HYPOTHESIS (CHAPTER 11)		OCT 25 EFFICIENT MARKET HYPOTHESIS, CONT'D (CHAPTER 11)
OCT 28 BOND PRICES AND YIELDS (CHAPTER 14) HW #6		OCT 30 BONDS CONT'D (CHAPTER 14)		NOV 1 BONDS CONT'D (CHAPTER 14)
NOV 4 MACRO AND INDUSTRY ANALYSIS (CHAPTER 17) HW #7		NOV 6 MACRO ANALYSIS CONT'D (CHAPTER 17)		NOV 8 EQUITY VALUATION MODELS (CHAPTER 18)
NOV 11 EQUITY VALUATION MODELS (CHAPTER 18) HW #8 (NO LATE HW)		Nov 13 EXAM 2 (CHAPTER 9-17)		NOV 15 EQUITY VALUATION MODELS CONT'D (CHAPTER 18)
NOV 18 EQUITY VALUATION MODELS CONT'D (CHAPTER 18)		NOV 20 OPTIONS MARKETS: INTRODUCTION (CHAPTER 20)		NOV 22 OPTIONS MARKETS CONTD (CHAPTER 20)
NOV 25 OPTIONS MARKETS CONTD (CHAPTER 20) HW #9		Nov 27 NO CLASS THANKSGIVING BREAK		Nov 29 NO CLASS THANKSGIVING BREAK
DEC 2 OPTION VALUATION (CHAPTER 21)		DEC 4 OPTION VALUATION, CONT'D (CHAPTER 21) HW#10 (NO LATE HW)		DEC 6 OPTION VALUATION, CONT'D (CHAPTER 21)
DATE TBD: REVIEW SESSION				FRIDAY DEC 20 FINAL EXAM (CUMULATIVE) 2:00 – 5:00 PM