Course program and reading list

Semester 1 Year 2024

School: Arison School of Business B.A

Investment Theory

Lecturer:

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Tutors:

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Teaching Assistant:

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Course No.:	Course Type :	Weekly Hours :	Credit:
61	Lecture	4	4

Course Requirements :	Group Code :	Language:
Final Paper	241006121	English

Prerequisites

Prerequisite:

42 - Fundamentals Of Finance **OR** 89 - Fundamentals of Finance
42 - Fundamentals Of Finance **OR** 2347 - Corporate finance

Students who took one of the courses listed below will not be allowed to register to the course Investment Theory (61):

2073 - Strategic Management
9031 - Investment Theory

Course Description

This course aims to introduce students to fundamental concepts in investment theory, asset pricing and financial markets in the context of investment management. Topics covered include portfolio theory, asset pricing models, market efficiency and security valuation. We
will discuss fixed income markets, including various credit instruments. Finally, time permitting, we will touch upon different investment styles, with a focus on systematic strategies.

Course Goals

This course is an introductory investments course that covers both the theoretical background to portfolio choice and investing under uncertainty, as well as practical applications of investment theory. The course aims to provide basic knowledge about financial markets, asset pricing models, major asset classes and the trade-offs between them. Students should pick up the basic theory and analytical tools required for fixed income security valuation and portfolio construction.

Grading

Assignments: 10%. Submissions can be done in groups of 2 students.
Quizzes: 24% (Extra-credit, can only help in final grade)
Final exam: 66%-90% (Depending on performance in quizzes. The format of the exam will be explained in class.)

Participation:
Active participation is encouraged. Students can earn up to 5 bonus points when actively participating during class or tutorial sessions.

Learning Outcomes

At the end of the course students should understand the characteristics of different financial assets, such as money market instruments, stocks and bonds, and the differences between them. Students should understand the concept of portfolio diversification and the basics of asset allocation, as well as acquire working familiarity with widely used asset pricing models.
The goal of this course is to provide the students with a structure for thinking about investments, to enable them to address investment problems in a systematic manner. The course will not cover stock picking or detailed analysis of individual companies

Lecturer Office Hours

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Teaching Assistant

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Additional Notes

Investment decisions are made under uncertainty, therefore, some statistical knowledge is required for this course. Specifically, basic familiarity with the normal distribution, mean, variance and covariance measures. Familiarity with the basic concepts of regression analysis will be helpful. Students should also review present value analysis from their fundamental Finance course.

Reading List

Text book:

"Essentials of Investments" by Zvi Bodie, Alex Kane, Alan Marcus. 12th edition (2022).

Copies of the text book have been put on reserve in the library .

Topics covered :

1. **Introduction to Investing and Financial Markets**

- Introduction to Investing and Capital Markets - Ch 1
- Asset Classes and Financial Markets - Ch 2
- Market Indices - Ch 2
- Securities Trading and Exchanges - Ch 3
- Investment Companies - Ch 4

2. **Portfolio Theory and Practice**

Risk and Return: Ch 5-6

- Expected return
- Measuring risk

- Risk Aversion

Risk Aversion and Allocation to Risky Assets: Ch 5-6

- Mean-variance preferences
- Capital Allocation Line (CAL)
- Allocation across risky and risk-free assets

Optimal Risky Portfolio: Ch 6

- Portfolio statistics – Correlations
- Investment opportunity set
- Optimal risky portfolio
- Two-fund separation
- Efficient Frontier

Multi-Asset Portfolio and Diversification: Ch 6

- Diversification
- Systematic vs. idiosyncratic risk

3. **Asset Pricing Models**

Capital Asset Pricing Model (CAPM): Ch 7

- Market portfolio
- Capital Market Line (CML)
- CAPM Beta
- Security Market Line (SML)

Estimating CAPM Beta and Risk Decomposition - Ch 7, 13

Empirical Evidence on Security Returns: Ch 7, 13

- Testing the CAPM
- The equity premium puzzle
- Fama-French factors and momentum

4. **Performance Evaluation Ch 18**
5. **Market Efficiency**

Market Efficiency: Ch 8

- Forms of market efficiency
- Event studies
- The joint hypothesis problem
- Mutual fund industry and performance – style analysis

6. **Fixed Income Investing** Debt Securities: Ch 10

- Overview of debt markets

- Debt securities
- Risk in fixed income markets

Bond Pricing - Ch 10

Default risk: Ch 10

- Credit ratings
- Default and recovery rates

Term Structure of Interest Rates: Ch 10

- Yield curve
- Forward rates

Interest rate risk: Ch 11

- Duration
- Convexity
- Managing bond portfolios