

FIN 205: ACCELERATED FINANCIAL THEORY
Brandeis University International Business School: Fall 2008
Professor Osler
Monday/Wednesday 12:30-2:00 PM
Lemberg Building, Lee Hall

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COURSE DESCRIPTION

Accelerated Financial Theory introduces well prepared students to the basics of asset-pricing and portfolio choice with respect to tradable financial securities. Asset-pricing topics include the pricing of bonds including the yield curve, forward rates, and duration/convexity; the pricing of equities including the dividend-discount model with and without anticipated growth; and the pricing of futures/forwards and the basics of option pricing. Portfolio choice topics include investors' attitudes towards risk, risk measurement, and optimal portfolio structure. The course also discusses equilibrium models of expected returns such as the Capital Asset Pricing Model and Multi-factor models. Empirical evidence on investor behavior is discussed throughout.

Our goal is to cover the majority of the textbook by Bodie, Kane, and Marcus (BKM) in one semester, so our average pace will be about one chapter per class. Some of the materials are easily handled by student pre-reading and class review, specifically chapters which introduce general market mechanics and various security types (Chapters 1-4, 17, 20). Other topics will be extensively developed and often generalized mathematically in class. This applies to chapters which provide quantitative tools and models for understanding asset pricing and portfolio management (Chapters 6-7, 9-12, 14-16, 18, 21-22).

It is expected that students will read in advance, and stay at least one chapter ahead of the lectures. Class time will focus on developing and exploring the more quantitative topics, as well as clarifying ambiguities in the 'easier' readings.

TEXTBOOK

Zvi Bodie, Alex Kane and Alan J. Marcus, **Investments, 7th Edition** (New York, NY: McGraw-Hill, 2008). The 6th and earlier editions are different in critical ways that bring confusion. Their use is strongly discouraged.

COURSE WORK

Homework: Advance readings will be assigned every class; students are expected to be familiar with these readings before the associated lecture. Homework problems will be assigned every week (unless there is a midterm) and due the next class. These exercises illuminate the material developed in class through numerical examples and help students keep pace with the lectures. Homework *may* be discussed in student groups, but ***each student must submit his/her own work***. LATE WORK IS NOT ACCEPTED. The lowest homework score will be dropped from calculating the semester-average homework grade.

Research Project: Write a report in response to an RFP (Request For Proposal) for an equity/cash asset allocation for a major university endowment of \$1 billion. The university investment committee has decided to allocate its funds among the following investable equity indexes:

- U.S. Large Cap Equity
- U.S. Mid Cap Equity
- U.S. Small Cap Equity
- International Equity (major markets)
- International Equity (emerging markets)

You have been asked to analyze asset allocation options among these 5 asset classes as well as T-Bills.
 Data library: http://mba.tuck.dartmouth.edu/pages/faculty/ken.french/data_library.html

Examinations: There will be 2 mid-term examinations (1.5 hours) and one final examination (3 hours), all closed-book. The mid-terms will be to divide the content into 3 roughly-equal parts. The final examination is cumulative, and reflects all the material covered in the chapters, including material not discussed in class, unless material explicitly excluded by Professor Osler.

There are no make-up Mid-term exams. Missed exam points will be allocated to the Final Exam.

The final exam will take place at the time and place scheduled by the Registrar. Check the Registrar’s exam listings for details. **DO NOT SCHEDULE VACATION TRIPS THAT CONFLICT WITH THIS EXAM.** An **alternative time for the final requires** a documented conflict with another course.

Grading Points

Mid-terms: 20%
 Midterm II: 20%
 Final: 30%
 Project: 15%
 Homework: 15%

Course Plan

Mid-Term I: October 8 (class 9) Chapters 1-12
 Mid-Term II: November 10 (class 18) Chapters 13-19
 Research Project: December 3 (5:00 pm)
 Final: December 13-18, time and place to be announced by Registrar. Chapters 1-27

Course schedule

For your convenience, here is an outline of the specific class dates.
 “NC” means “NO CLASS.” “MT” means “Mid-Term.”

	<u>Mon</u>	<u>Wed</u>	<u>Mon</u>	<u>Wed</u>	<u>Mon</u>	<u>Wed</u>	<u>Mon</u>	<u>Wed</u>	<u>Mon</u>
Sept.	1-NC	3	8	10	15	17	22	24	29-NC
Oct.		1-NC	6	8-MT	20	22	27	29	
Nov.	3	5	10-MT	12	17	19	24	26	
Dec.	1	3	8						

ACADEMIC INTEGRITY

You are expected to be honest in all of your academic work. You should be familiar with and follow the University’s policies on academic integrity (see <http://www.brandeis.edu/studentlife/sdje/ai/>). Instances of alleged dishonesty will be forwarded to the Office of Campus Life for possible referral to the Student Judicial System. Potential sanctions include failure in the course and suspension from the University.

It is academically dishonest to:

- **Copy anyone else's work on practice problems and exams**

- **Let someone copy your work on practice problems and exams**
- **Use anyone else's words or ideas without giving credit on the project**
- **Communicate with other students during exams**

Academic integrity is a very serious matter at IBS in general and for your professor, in particular.

DISABILITIES

If you are a student with a documented disability on record at Brandeis University and wish to have a reasonable accommodation made for you in this class, please see me immediately.