### Course Description

During the recent financial turmoil, we have experienced wide ride in the stock markets not only at home but abroad as well. Such volatile markets provide both challenges and opportunities for investors. This course is intended to provide a general overview of capital markets, financial instruments, and investment process. We will emphasize the role of modern financial theory in portfolio management. Therefore, we will cover a wide range of topics such as, financial markets, trading, security valuation, diversification and asset allocation, modern asset pricing models, performance measurement, active portfolio management, financial derivatives, and fixed income securities. By the end of the course, I hope you will be able to understand how financial markets work, to analyze securities, and to make intelligent investment decisions based on available evidence and analysis. The course will also improve your ability to understand financial articles and news with a critical approach.

Because of the risky nature of firms’ investment, most financial decisions are made under uncertainty and based on firms’ future cash flows projection. Therefore, statistical knowledge is required, especially knowledge on probability distributions, mean, variance, covariance, and regression analysis. You must take above prerequisites first. It is also very important to review your calculus textbook, especially on the topics of derivative and optimization. In addition, financial Management (BA3341) is also a prerequisite.

### Learning Outcomes

1. Students will understand the characteristics of different financial assets such as money market instruments, bonds, and stocks, and how to buy and sell these assets in financial markets.
2. Students will understand the benefit of diversification of holding a portfolio of assets, and the importance played by the market portfolio.
3. Students will know how to apply different valuation models to evaluate fixed income securities, stocks, and how to use different derivative securities to manage their investment risks.

### Required Texts & Materials

- Bodie, Kane and Marcus, Essentials of *Investments*, 7th edition
- Burton G. Malkiel, *Random Walk Down Wall Street*

### Suggested Texts

- Wall Street Journal or financial section of major newspapers such as the New
### Readings, & Materials
York Times, and watch financial programs. There are several movies you can watch for fun: *Wall Street, Trading Places, Barbarians at Gate, Boiler Room.*

### Assignments & Academic Calendar

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<th>Date</th>
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<th>Topic</th>
<th>Reading</th>
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<td>Aug. 25</td>
<td>Lecture 1</td>
<td>The Investment Decision</td>
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<td>Introduction and Statistics Review</td>
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<td>Investment and financial assets</td>
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<td>Financial markets and instruments</td>
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<td>Recent trends</td>
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<td>Statistics and Math review</td>
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<td>Sept. 01</td>
<td>Lecture 2</td>
<td>Security Market</td>
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<td>Investment environment</td>
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<td>Money and fixed-income markets</td>
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<td>Equity markets</td>
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<td>Note: <strong>Problem Set 1 Due in Class</strong></td>
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<td>Sep. 08</td>
<td>Lecture 3</td>
<td>Security Trading</td>
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<td>Primary markets</td>
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<td>Margin purchase</td>
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<td>Short sales</td>
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<td>Sep. 15</td>
<td>Lecture 4</td>
<td>Index and Mutual funds</td>
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<td>Different types of indices</td>
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<td>Constructing indices</td>
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<td>Expenses and Taxations</td>
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<td>Sep. 22</td>
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<td>Return calculation</td>
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<td>A historical view</td>
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<td>Asset allocation</td>
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<td>BKM, Chapters 5</td>
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<td>Note: <strong>Problem Set 2 Due in Class</strong></td>
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<td>Sep. 29</td>
<td>Lecture 6</td>
<td>Portfolio Theory</td>
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<td>Characterizing portfolio returns</td>
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<td>Diversification</td>
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<td>Efficient frontier</td>
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<td>BKM, Chapter 6</td>
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<td>Oct. 06</td>
<td>Lecture 7</td>
<td>Portfolio Theory (continue)</td>
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<td>Classification of risks</td>
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<td>Efficient frontier with risk-free assets</td>
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<td>Single Factor Model</td>
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<td>Review</td>
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<td>BKM, Chapters 6</td>
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<td>Oct. 13</td>
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<td>Midterm exam</td>
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Oct. 20
Lecture 8
The Asset Pricing Model  
Markets in Equilibrium  
The Capital Asset Pricing Model (CAPM)  
The Arbitrage Pricing Theory (APT)  
CAPM v.s. APT  
BKM, Chapter 7

Oct. 27
Lecture 9
Market Efficiency and Anomalies  
Random walk hypothesis  
Three forms of market efficiency  
Emplications of EMH  
Market efficiency versus predictability  
Evidence on market efficiency  
BKM, Chapter 8

Nov. 03
Lecture 10
Portfolio Management and Performance Evaluation  
Styles of Investment Management  
Why are returns predictable?  
Market timing  
Different performance measure  
BKM, Chapters 27 and 24.4

Nov. 10
Lecture 11
Bond Valuation  
Bond yields and pricing  
Default premiums  
Term structure of interest rates  
BKM, Chapter 10

Nov. 17
Lecture 12
Stock Valuation  
Dividend Discount Models  
Price and Earning Ratio  
BKM, Chapter 13

Nov. 24
Lecture 13
Options  
Introduction to options  
Put and call parity  
Review  
BKM, Chapters 15

Dec. 03
Final exam

Course Policies
Grading (credit) Criteria
Problem Sets 30%  
Midterm Examination 30%  
Final Examination 40%  

(Please directly contact my TA for grading issues!)

You must take the final exam in order to receive a grade for the course.

Homework
There will be six problem sets distributed during the semester. I will drop the lowest grade on the problem sets so that only five count toward the final grade. All homework assignments should be submitted prior to class on the due date. You need to show your work in order to get the full credit. No late homework will be accepted. Solutions to the problem sets will be posted on my website at http://www.utdallas.edu/~yexiaoxu. In the event that you are unable to attend a particular class, you may either email your
<table>
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<th>Exams</th>
<th>There will be one in-class midterm and a final exam. In order to be fair to everyone, exams must be taken on the specified dates. For those who can not take the midterm on the date of exam due to business travel, you should take it before leaving the town. <strong>No additional credit or make up final will be granted.</strong> The midterm and final exams will consist of conceptual and problem solving questions. All exams will be <em>closed book</em> and <em>closed notes</em>. Do not bring in any paper. I will provide you with scratch paper and a formula sheet. No cell phone, PDA, financial or graphing calculator, and other electronic devices, except a <strong>SIMPLE</strong> (non-programmable) scientific calculator, are allowed. Your grades will be posted on the SIS.</th>
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<tr>
<td>Class Attendance</td>
<td><strong>Not enforced but strongly encouraged.</strong> You will be responsible for all the materials discussed in class.</td>
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<td>Classroom Citizenship</td>
<td>Strongly encourage class discussion</td>
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| Student Conduct and Discipline | The University of Texas System and The University of Texas at Dallas have rules and regulations for the orderly and efficient conduct of their business. It is the responsibility of each student and each student organization to be knowledgeable about the rules and regulations which govern student conduct and activities. General information on student conduct and discipline is contained in the UTD publication, *A to Z Guide*, which is provided to all registered students each academic year.

The University of Texas at Dallas administers student discipline within the procedures of recognized and established due process. Procedures are defined and described in the *Rules and Regulations, Board of Regents, The University of Texas System, Part 1, Chapter VI, Section 3*, and in Title V, Rules on Student Services and Activities of the university’s *Handbook of Operating Procedures*. Copies of these rules and regulations are available to students in the Office of the Dean of Students, where staff members are available to assist students in interpreting the rules and regulations (SU 1.602, 972/883-6391).

A student at the university neither loses the rights nor escapes the responsibilities of citizenship. He or she is expected to obey federal, state, and local laws as well as the Regents’ Rules, university regulations, and administrative rules. Students are subject to discipline for violating the standards of conduct whether such conduct takes place on or off campus, or whether civil or criminal penalties are also imposed for such conduct. |
| Academic Integrity | The faculty expects from its students a high level of responsibility and academic honesty. Because the value of an academic degree depends upon the absolute integrity of the work done by the student for that degree, it is imperative that a student demonstrate a high standard of individual honor in his or her scholastic work.

Scholastic dishonesty includes, but is not limited to, statements, acts or omissions related to applications for enrollment or the award of a degree, and/or the submission as one’s own work or material that is not one’s own. As a general rule, scholastic dishonesty involves one of the following acts: cheating, plagiarism, collusion and/or falsifying academic records. Students suspected of academic dishonesty are subject to disciplinary proceedings.

Plagiarism, especially from the web, from portions of papers for other classes, and from any other source is unacceptable and will be dealt with under the university’s policy on plagiarism (see general catalog for details). This course will use the resources of turnitin.com, which searches the web for possible plagiarism and is over 90% effective. |
| Email Use | The University of Texas at Dallas recognizes the value and efficiency of communication between faculty/staff and students through electronic mail. At the same time, email raises some issues concerning security and the identity of each individual in an email exchange. The university encourages all official student email correspondence be sent only to a |

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homework to my TA or have someone else to turn it in. Group discussion of homework problems is allowed but each student must prepare his/her own solution to each problem set. A copy of others’ solution is considered as a cheating behavior.
student’s U.T. Dallas email address and that faculty and staff consider email from students official only if it originates from a UTD student account. This allows the university to maintain a high degree of confidence in the identity of all individual corresponding and the security of the transmitted information. UTD furnishes each student with a free email account that is to be used in all communication with university personnel. The Department of Information Resources at U.T. Dallas provides a method for students to have their U.T. Dallas mail forwarded to other accounts.

**Withdrawal from Class**

The administration of this institution has set deadlines for withdrawal of any college-level courses. These dates and times are published in that semester's course catalog. Administration procedures must be followed. It is the student's responsibility to handle withdrawal requirements from any class. In other words, I cannot drop or withdraw any student. You must do the proper paperwork to ensure that you will not receive a final grade of "F" in a course if you choose not to attend the class once you are enrolled.

**Student Grievance Procedures**

Procedures for student grievances are found in Title V, Rules on Student Services and Activities, of the university's Handbook of Operating Procedures.

In attempting to resolve any student grievance regarding grades, evaluations, or other fulfillments of academic responsibility, it is the obligation of the student first to make a serious effort to resolve the matter with the instructor, supervisor, administrator, or committee with whom the grievance originates (hereafter called “the respondent”). Individual faculty members retain primary responsibility for assigning grades and evaluations. If the matter cannot be resolved at that level, the grievance must be submitted in writing to the respondent with a copy of the respondent’s School Dean. If the matter is not resolved by the written response provided by the respondent, the student may submit a written appeal to the School Dean. If the grievance is not resolved by the School Dean’s decision, the student may make a written appeal to the Dean of Graduate or Undergraduate Education, and the dean will appoint and convene an Academic Appeals Panel. The decision of the Academic Appeals Panel is final. The results of the academic appeals process will be distributed to all involved parties.

Copies of these rules and regulations are available to students in the Office of the Dean of Students, where staff members are available to assist students in interpreting the rules and regulations.

**Incomplete Grades**

As per university policy, incomplete grades will be granted only for work unavoidably missed at the semester’s end and only if 70% of the course work has been completed. An incomplete grade must be resolved within eight (8) weeks from the first day of the subsequent long semester. If the required work to complete the course and to remove the incomplete grade is not submitted by the specified deadline, the incomplete grade is changed automatically to a grade of F.

**Disability Services**

The goal of Disability Services is to provide students with disabilities educational opportunities equal to those of their non-disabled peers. Disability Services is located in room 1.610 in the Student Union. Office hours are Monday and Thursday, 8:30 a.m. to 6:30 p.m.; Tuesday and Wednesday, 8:30 a.m. to 7:30 p.m.; and Friday, 8:30a.m to 5:30p.m. The contact information for the Office of Disability Services is:

The University of Texas at Dallas, SU 22
PO Box 830688
Richardson, Texas 75083-0688
(972) 883-2098 (voice or TTY)

Essentially, the law requires that colleges and universities make those reasonable adjustments necessary to eliminate discrimination on the basis of disability. For example, it may be necessary to remove classroom prohibitions against tape recorders or animals (in the case of dog guides) for students who are blind. Occasionally an assignment requirement may be substituted (for example, a research paper versus an oral presentation for a student who is hearing impaired). Classes enrolled students with mobility impairments may have to be rescheduled in accessible facilities. The college or university may need to provide special services such as registration, note-taking, or mobility assistance.

It is the student’s responsibility to notify his or her professors of the need for such an accommodation. Disability Services provides students with letters to present to faculty members to verify that the student has a disability and needs accommodations. Individuals requiring special accommodation should contact the professor after class or during office hours.
| **Religious Holy Days** | The University of Texas at Dallas will excuse a student from class or other required activities for the travel to and observance of a religious holy day for a religion whose places of worship are exempt from property tax under Section 11.20, Tax Code, Texas Code Annotated. 

The student is encouraged to notify the instructor or activity sponsor as soon as possible regarding the absence, preferably in advance of the assignment. The student, so excused, will be allowed to take the exam or complete the assignment within a reasonable time after the absence: a period equal to the length of the absence, up to a maximum of one week. A student who notifies the instructor and completes any missed exam or assignment may not be penalized for the absence. A student who fails to complete the exam or assignment within the prescribed period may receive a failing grade for that exam or assignment. 

If a student or an instructor disagrees about the nature of the absence [i.e., for the purpose of observing a religious holy day] or if there is similar disagreement about whether the student has been given a reasonable time to complete any missed assignments or examinations, either the student or the instructor may request a ruling from the chief executive officer of the institution, or his or her designee. The chief executive officer or designee must take into account the legislative intent of TEC 51.911(b), and the student and instructor will abide by the decision of the chief executive officer or designee. |
| **Off-Campus Instruction and Course Activities** | Off-campus, out-of-state, and foreign instruction and activities are subject to state law and University policies and procedures regarding travel and risk-related activities. Information regarding these rules and regulations may be found at [http://www.utdallas.edu/BusinessAffairs/Travel_Risk_Activities.htm](http://www.utdallas.edu/BusinessAffairs/Travel_Risk_Activities.htm). Additional information is available from the office of the school dean. |

*These descriptions and timelines are subject to change at the discretion of the Professor.*
About Yourself

In order for me to better organize the course, and to adapt the materials to your background, would you please tell me more about yourself?

Your Name ___________________________
Your Phone Number ____________________
Your Email Address ____________________
(Please send me an email with your full name, so that I can compile a mailing list)
Your Job ____________________________________________________________________

Your Background

Finance Class ________________________________________________________________
Economics Class __________________________________________________________
Accounting Courses _________________________________________________________
Statistics and Math Courses _________________________________________________
Other related Courses ________________________________________________________

Survey:

Do you read sports section of a newspaper?
Never ______  Occasionally ______  Often ______

Do you read financial newspapers, such as the Wall Street Journal, the Financial Times, the financial section of the New York Times, etc.?
Never ______  Occasionally ______  Often ______

Do you read financial magazines, such as Money Magazine, Business Week, Forbs, etc.?
Never ______  Occasionally ______  Often ______

Do you watch financial programs, such as Nightly Business News, CNBC, Wall Street Week with Louis Rukeyser, etc.?
Never ______  Occasionally ______  Often ______

Your Comments: