Objective: The objectives of this course are: (1) to familiarize you with the theory and practice of investing in financial instruments in a global economy, (2) to enhance your ability to work effectively in teams. During the course, students will become familiar with financial market data and trading, including analysis of actual returns from trading stocks, options, futures, mutual funds, and other assets.

Useful Background: You will have an easier time in this course if you are already comfortable with:

1. Present Value calculations
2. Simple statistics (e.g., means, standard deviations, correlations)
3. A spreadsheet computer program (e.g., Excel)

If you are not, you will be expected to learn these in addition to the course material. (I will cover them in class, albeit briefly.)

Exams and Grades: There will be an in-class midterm on February 3rd, and a final on Monday, March 13 at 5:45 pm in 231 Gilbert. Your course grade will be computed as follows:

- 30% Problem Sets
- 10% Participation
- 60% Midterm and Final Exam

Your exam grade will be either 50% midterm and 50% final, or 35% midterm and 65% final, whichever is higher.

Problem Sets: You will have several graded problem sets throughout the quarter. Some will be a team effort (two students per team) and others you will have the option to either turn in individual assignments, or one as a team. Some will require computer work (spreadsheet program), library, or WWW materials. Others will require answering questions based on a simulated trading exercise (see “Virtual Stock Exchange” below). The problems sets will complement and allow you to practice using ideas and methods developed in class. All assignments should be typed, although writing in graphs or equations is acceptable. Points are deducted for poor grammar, spelling and writing style.

Of course, if you do not turn in an assignment, you will get 0 points for that assignment. Problem sets are an invaluable way to prepare for exams. In fact, some problem sets have questions from old exams. Note that problem sets count for 30% of your overall course grade. Because a successful team project depends on the effort of individual team members, each person must contribute his or her fair share in the team. FAILURE TO CONVINCE YOUR FELLOW TEAMMATE THAT YOU ARE CONTRIBUTING YOUR SHARE WILL RESULT IN A SIGNIFICANT GRADE REDUCTION (INCLUDING A ZERO TEAM PROJECT Grade). (See attached team member evaluation sheet on last page of this syllabus.)
Virtual Stock Exchange trading simulation: Students should form groups of two for the team assignments and keep the same partner throughout the term. I would like to know who is in each team by 1/13/00 so that I can make sure everyone is in a team. (You can let me know before or after class or through email (include full names in your email.) I will provide instructions for signing up for the simulation on the course web page. There is no cost associated with this simulation, but note that this is a requirement for the course. Presumably only one team member will sign up, but the password and trading privileges will be shared by both. Even if both team members sign up for separate accounts, only one account summary should be turned in per assignment. (i.e., your submitted assignment should not be a compilation of trades from both accounts).

Late homework: Late homework is penalized 10% of the earned points for each day it is late (i.e., 20% of points for being 2 days late.)

Class participation: Throughout the course I will assign short articles from the business press (e.g., The Wall Street Journal, Business Week), including some from your packet. I will also give short assignments that are to be turned in at the next class. Students will be evaluated on the quality of class participation and these short assignments throughout the course. I encourage students to ask questions at any time. I reserve the right to call on students in class. I also encourage you to come to office hours with any questions or concerns about the course. You can also send your questions by email.

Course Materials:
Required: 1) Investments, 5th Edition by Reilly and Norton (RN), 1999
Required: Packet of readings and notes available in the bookstore.
Required: Subscription to Virtual Stock Exchange (instructions given above---at least one subscription per group of two students.)
Recommended: The Wall Street Journal, Business Week

Office Hours and how to contact me:
Tuesdays and Thursdays 11:00-12:00; 4:00-5:00 and by appointment
extra office hours will be provided around exams
email:dianedg@oregon.uoregon.edu
Gilbert 181, phone 346-5179.
Home page: http://darkwing.uoregon.edu/~dianedg
Course Outline:
Suggested end-of-chapter questions and problems are given under each topic. These are not to be turned in unless otherwise instructed. These are provided mainly to convey the depth of understanding that I expect students to demonstrate on exams. Solutions are on reserve in Knight Library. Please show some respect for your fellow students and refrain from destroying or removing pages from the solution manual.

1. Course introduction and background on how securities are traded in the capital market.
   RN Chapter 4, packet p. 3-15
   Questions Chapter 4: 1, 2, 3, 4, 5, 8, 13, 14, 16, 18, 19
   Problems Chapter 4: 5, 7

2. One-period, multiple-period, annualized holding period returns (HPR), expected HPR.
   RN: pp. 5-10, packet p. 18-26
   Questions Chapter 1: 5
   Problems Chapter 1: 1, 2, 3, 4, 5abd, 9

3. Statistical review (mean, standard deviation, normal distribution) and the historical record of the risk and return of various asset classes.
   RN: pp. 10-23, packet p. 27-37
   Questions Chapter 1: 6
   Problems Chapter 1: 6, 7, 8
   Problems Chapter 3: 5c, 6b

4. Optimal Portfolio Choice
   Asset allocation based on investor risk aversion: Allocating investment dollars between the risky portfolio and the risk-free asset.
   Packet p.39-40

5. Optimal Portfolio Choice; Efficient diversification
   application: international diversification
   RN: Chapter 6, Chapter 3 pp. 71-82, packet p. 41-57, 67-72
   Questions Chapter 6: 1-7, 9-12
   Problems Chapter 6: 1-8
   Questions Chapter 3: 2-8, 11, 14

6. Risk and Return (CAPM).
   RN: Chapter 7, packet p. 58-66
   Questions Chapter 7: 1-12
   Problems Chapter 7: 1-3, 12, 14

7. Applications of the CAPM: Fundamental Valuation
   RN Chapter 10, packet p. 113-137
   Problems Chapter 10: 1, 2, 4-10, 14, 15
8. Applications of the CAPM: Investing in and Evaluating Mutual Funds
   RN: Chapter 21 (skip closed-end funds)
   Questions Chapter 21: 1, 4-16, 19
   Problems Chapter 21: 1, 2, 4, 5
   RN: Chapter 22 (pages 778-788 “Composite (Risk-Adjusted) Portfolio Performance Measures)
   Questions Chapter 22: 10
   Problems Chapter 22: 1-5

9. Asset allocation, risk aversion, 401k investing
   packet p. 73-80

10. Efficient Market Theory
    application: The debate between active and passive portfolio management
    RN Chapter 8, packet p. 93-111
    Questions Chapter 8: 1, 4, 7-10, 14-17, 19, 20
    Problems Chapter 8: 4

11. Options strategies and valuation
    RN Chapter 17 (skip forward and futures contracts), packet p. 81-92
    Questions Chapter 17: 1-3, 5, 6, 8, 9-12
    Problems Chapter 17: 1, 2, 4, 6-15

12. Bonds and Interest Rate Risk
    RN Chapter 16 (skip topics under the following headings (in order of the text):
    A word on yield calculations, promised yield to call, realized yield, calculating future bond prices, yield adjustments for tax-exempt bonds, term structure of interest rates). Focus on “What determines the price volatility for bonds?” in the text and the packet p. 138-149.
    Questions Chapter 16: 1-3, 7, 11, 13-16
    Problems Chapter 16: 3-6, 8

The final will focus on post-midterm topics 7-12. However, you will also be expected to know how to calculate HPRs and have a basic understanding of the CAPM. These are concepts you will be expected to know well in other finance classes.
TEAM MEMBER EVALUATION

Each student is to turn in this form on the day that the last team problem set assignment is due. This form will be kept confidential.

As noted earlier, your team problem set grade will be influenced by your partner’s perceptions of your contribution to the overall joint effort. On the form below, evaluate your partner and yourself in terms of overall contribution. Assign your partner the grade you feel he or she deserves based on the quality and quantity of his or her effort. Use the same criteria for your own grade. For example, assigning a grade of 70 to your partner means that you feel that your partner should receive 70 percent of the grade I assign to the team problem sets. In a smoothly running team everyone will receive a 100. If you assign you or your partner less than 100 briefly explain why (Use the back of this sheet.)

TEAM MEMBER (Please print)    Grade

________________________________    ______

________________________________    ______

Signed _____________________________

Student ID __________________________