

Investment Management Fall 2011

Tues. 2:20-5:20 P.M.
Room 301, Building 2
College of Management

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Course Objectives

1. To introduce modern investment management theory, including Fisher separation theory, utility theory, portfolio theory, CAPM, APT, option pricing theory, futures, and bond management.
2. To discuss contemporary papers on investment management, including behavior finance, CAPM, efficient market hypothesis, information asymmetry and market microstructure, option pricing and risk management, and bond management.

Class Structure

The class notes, required textbooks, and assigned papers are the foundation of this course.

Exams

A comprehensive examination is required in this class. Class participation is, among other things, a very important factor in your final grading.

Required Textbook

Financial Theory and Corporate Policy, by T. E. Copeland, J. F. Weston, and K. Shastri, 4th edition, 2005, Pearson Addison Wesley publishing company.

Office Hours

Scheduled office hours:
Friday: 14:00~15:00
or by appointment.

Assigned Papers

Issue 1: Utility theory and behavior finance

1. Kahneman, D.K. and A. Tversky, 1979, Prospect Theory: an analysis of decision under risk, *Econometrica* 47, 263-291.
2. Odean, T, 1998, Are investors reluctant to realize their losses? *Journal of Finance* 53, 1775-1798. (P)

3. Barber, B.M. and T. Odean, 2000, Trading is hazardous to your wealth: the common stock investment performance of individual investors, *Journal of Finance* 55, 773-806.

Issue 2: CAPM

1. Fama, E.F. and K. R. French, 1992, The cross-section of expected stock returns, *Journal of Finance* 47, 427-466.
2. Fama, E.F. and K.R. French, 1996, Multifactor explanations of asset pricing anomalies, *Journal of Finance* 51, 55-84. (P)
3. Fama, E.F. and J. MacBeth, 1973, Risk, return and equilibrium: empirical tests, *Journal of Political Economy* 81, 607-636.
4. Banz, R.W., 1981, The relationships between return and market value of common stocks, *Journal of Financial Economics* 9, 3-18.
5. Basu, S., 1983, The relationship between earnings yield, market value and return for NYSE common stocks: further evidence, *Journal of Financial Economics* 12, 129-156.
6. Keim, D. B., 1983, Size-related anomalies and stock return seasonality, *Journal of Financial economics* 12, 13-32.

Issue 3: Efficient market hypothesis

1. DeBondt, W.F. and R.H. Thaler, 1987, Does the stock market overreact, *Journal of Finance* 40, 793-805. (P)
2. Jagadeesh, N. and S. Titman, 1993, Returns to buying winners and selling losers: implications for stock market efficiency, *Journal of Finance* 48, 65-91. (P)
3. Lo, A. W. and A. C. MacKinlay, 1988, Stock market prices do not follow random walks: evidence from a simple specification test, *Review of Financial Studies* 1, 41-66.

Issue 4: Information asymmetry and Market microstructure

1. Llorente, G., Michaely, R., Saar, G. and Jiang Wang, 2002, Dynamic volume-return relation of individual stocks, *Review of Financial Studies* 15, 1005-1048. (P)
2. Chordia, T., R. Roll. And A. Subrahmanyam, 2002, Order imbalance, liquidity, and market returns, *Journal of Financial Economics* 65, 111-130.
3. Brennan, M.J., Chordia, T. and A. Subrahmanyam, 1998, Alternative factor specifications, security characteristics, and the cross-section of expected stock returns, *Journal of Financial Economics* 49, 345-374.
4. Chordia, T. and A. Subrahmanyam, 2004, Order imbalance and individual stock returns: theory and evidence, *Journal of Financial Economics* 72, 485-518. (P)

Issue 5: Option pricing and Risk management

1. Heston, S. L. and S. Nandi, 2000, A close-form GARCH option valuation model, *Review of financial studies* 13, 585-626. (P)
2. Ritchken, P. and R. Trevor, 1999, Pricing options under generalized GARCH and stochastic volatility processes, *Journal of Finance* 54, 377-402.
3. Berkowitz, J. and J. O'brien, 2002, How accurate are Value-at-Risk models at commercial banks? *Journal of Finance* 57, 1093-1113. (P)

Issue 6: Bond Management

1. Cox, J., Ingersoll, J. and S. Ross, 1985, A theory of the term structure of interest rates, *Econometrica* 53, 385-407.
2. Vasicek, O., 1977, An equilibrium characterization of the term structure, *journal of financial economics* 5, 177-188.

Date	Topics and References
9/13	Introduction
9/20	Fisher Separation Theorem CWS chapter1
9/27	Fisher Separation Theorem
10/4	Prospect theory, Expected utility theory and Mean-variance analysis CWS chapter 3, 5, and Kahneman, D.K. and A. Tversky, 1979, Prospect Theory: an analysis of decision under risk, <i>Econometrica</i> 47, 263-291.
10/11	Prospect theory, Expected utility theory and Mean-variance analysis
10/18	Prospect theory, Expected utility theory and Mean-variance analysis
10/25	Discussion on issue 1: Utility theory and behavior finance
11/1	CAPM and APT CWS chapter 6
11/8	CAPM and APT
11/15	Holiday
11/22	Discussion on issue 2: CAPM
11/29	Discussion on issue 3: Efficiency market hypothesis
12/6	Discussion on issue 4: Information asymmetry and market microstructure
12/13	Options, Futures and Risk management CWS chapter 7,8
12/20	Options, Futures and Risk management
12/27	Discussion on issue 5: Option pricing and risk management
1/3	Bond Management
1/10	Final Examination