Investment Management
Fall 2009

Tues. 2:20-5:20 P.M. Dr. Yong-chern Su
Room 202, Building 2 Room1004, B2, SOM
School of Management 33661089

Course Objectives

1. To introduce the 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 CAPM, behavior finance, efficient market hypothesis, information asymmetry and market microstructure, option pricing and risk management, bond management and international capital market.

Class Structure

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

Exams

A comprehensive examination and a paper review are 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.

Reference Books

1. Modern investment theory, by Robert A. Haugen, the fifth edition, 2001, Prentice Hall.
2. Investment, by Z. Bodie, A. Kane and A.J. Marcus, the fifth edition, 2002, McGraw Hill Irwin.

Office Hours

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

Assigned Papers

Issue 1: 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 2: 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. (P)

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. Llornete, G., Michaely, R., Saar, G. and Jiang Wang, 2002, Dynamic volume-return relation of individual socks, 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. Subrahmamyam, 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.

Issue 7: International Capital Market

1. Hamao, Y., Masulis, R. W. and V. K. Ng, 1990, Correlations in price changes and volatility across international stock markets, Review of Financial Studies 3, 281-307.(P)
2. Forbes, K. J. and R. Rigobon, 2002, No contagion, only interdependence: measuring stock market comovements, Journal of Finance 57, 2223-2262.
3. Kodres, L.E. and M. Pritsher, 2002, A rational expectations model of financial contagion, Journal of finance 57, 769-800.

Date	Topics and References
9/15	Introduction
9/22	Fisher Separation Theorem
	CWS chapter1
9/29	Fisher Separation Theorem
10/6	Prospect theory, Expected utility theory and Mean-variance analysis
	CWS chapter 3, 5, BKM Chapter 6-8, Haugen, Chapter 5, and Kahneman, D.K. and A. Tversky, 1979, Prospect Theory: an analysis of decision under risk, Econometrica 47, 263-291.
10/13	Prospect theory, Expected utility theory and Mean-variance analysis
10/20	CAPM and APT
	CWS chapter 6, BKM Chapter 9-13, Haugen Chapter 8-10
10/27	CAPM and APT
11/3	Options, Futures and Risk management
	CWS chapter 7,8, BKM Chapter 20-23, Haugen Chapter 17-20
11/10	Options, Futures and Risk management
11/17	Bond Management
	BKM Chapter 14,15,16, Haugen Chapter14-16
11/24	Bond Management
12/1	Final Examination
12/8	Discussion: CAPM and Behavior finance
12/15	Discussion: Behavior finance and Contrarian strategy
12/22	Discussion: Momentum strategy and Information asymmetry
12/2	Discussion: Order imbalance and GARCH option pricing
1/5	Discussion: Value at risk and International Capital Market
1/12	Report Due