The University of North Carolina, Chapel Hill
Kenan-Flagler Business School

Investments – BUSI 580

Spring 2007

Professor. Riccardo Colacito (riccardo.colacito@unc.edu).


Meeting Times and Venue. Class meets twice per week on Tuesdays and Thursdays for 75 minutes. Section 1 meets from 2.00-3.15 pm and section 2 meets from 3.30-4.45 pm. Both sections meet in McColl 3050.

Overview. The course is a rigorous, quantitative introduction to financial market structure and financial asset valuation. The main topics of the course are arbitrage, portfolio selection, equilibrium asset pricing, fixed income securities, and option pricing. Students are expected to understand valuation formulas and be able to apply them to new problems. Every effort will be made to relate the course material to current financial news. The appropriate statistical tools necessary for solving these problems will be developed at each stage and practiced in the homework assignments.

Prerequisites. Students must be comfortable with statistics, linear algebra, calculus, and microeconomics.

Textbooks. The textbook for this class is “Essentials of Investments” by Zvi Bodie, Alex Kane, Alan J. Marcus, 6th edition. We will abbreviate it as BKM below. I will also post the slides used in class on the course’s web-page. Occasionally, I will suggest extra readings, depending on the topics that we will cover and that the class will show particular interest in. They will also appear on the course web-page.

Calculator. You need a calculator for this class. It is an advantage to have a financial calculator, but not a requirement. You are expected to learn how to use a calculator on your own.

Exams conduct and policies. There will be two midterm and one final exams. The final exam is cumulative. All exams are closed books. No laptops nor palm pilots are allowed on the exam. Make-up quizzes will be given only for family or medical emergencies. In the interests of fairness, evidence is required. To prepare for these exams, you should review the key issues discussed in class, in the readings and in the handouts, review the problem sets you handed in, look at the suggested problem sets and suggested readings. Doing more exercises on your own is always a good idea.

Exams dates:
• first midterm: March 1st
• second midterm: April 19th
• final exam: Tuesday May 8th at 8am.

Problem Sets. There will be a problem set almost every week, starting with the second week of the class.
For each problem set, you will be rewarded full credit if you have made a good-faith effort to answer all of the questions and if you hand in the problem set on time. Late problem sets will not be accepted. Although you are encouraged to work on the problem sets in group, answers must be handed in on your own, and must be handwritten.

**Classroom Civility.** Your behavior should respect your classmates desire to learn. Each lecture begins exactly on time. If you have problems with being on time, please visit www.time.gov. Coming late is disruptive no matter how quiet you are. If you carry a cell phone or any other type of ‘audible alert device’, turn it off before entering class. Do not engage in side conversations during the lecture. Repeated occurrence of such disruptions will be reflected in the final grade.

**Grading Policy.** The final counts toward 40% of your final grade. The two midterms carry 25% of the final grade each. Homeworks and class participation will be reflected in the remaining 10% of your grade.

**Course Outline.** We will cover chapters 1 through 16 of BKM in class. Although I encourage you to read also the remainder of the book, only the knowledge of BKM 1-16 is required to pass the exam. A class by class description of topics, BKM chapters, readings and problems sets can be found at https://intranet.kenan-flagler.unc.edu/courses/bsba/ba580/Schedule/SyllabusSchedule.htm. Here is a sketch:

1. **Introduction to investments** (BKM 1-3)
   - Background and issues
   - Securities and their markets

2. **Portfolio theory** (BKM 4-8)
   - Risk and Return
   - Efficient portfolio diversification
   - Capital Asset Pricing Model and Arbitrage Pricing Theory
   - Mutual Funds
   - Behavioral Finance

3. **Debt securities** (BKM 9-10)
   - Bond prices and Bond yields
   - Managing bond portfolios

4. **Derivative Markets** (BKM 14-16)
   - Options markets and valuation
   - Futures

5. **Security Analysis** (BKM 11-13)
   - Macroeconomics and Finance
   - Equity valuation