UNIVERSITY OF NORTH CAROLINA, CHAPEL HILL
KENAN-FLAGLER BUSINESS SCHOOL

INVESTMENTS
PART II: FIXED INCOME, DERIVATIVES, AND EQUITY VALUATION
SPRING 2010

Professor Riccardo Colacito.
Email: riccardo.colacito@unc.edu
Office: McColl 4105
Phone: (919)962-2767
Office hours: Mondays 4pm-6pm.

COURSE WEBPAGE
The material will be available at the course portal through the following link https://home.kenan-flagler.unc.edu/Pages/Default.aspx.

MEETING TIMES AND VENUE
Class meets twice per week on Tuesdays and Thursdays for 80 minutes in classroom 2650. Section 1 meets at 8am, section 2 meets at 9.30am, section 3 meets at 11am.

OVERVIEW
The course is a rigorous, quantitative introduction to financial asset valuation. The main topics of the course are fixed income securities, option pricing, and security valuation. 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, and calculus.

**Textbooks**

The textbook for this class is “Investments” by Zvi Bodie, Alex Kane, Alan J. Marcus, 8th edition. We will abbreviate it as BKM below. I will also post the slides used in class on the course’s webpage. 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 one final exam. The exam is closed books, but you are allowed to bring one double-sided letter size page. 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 the exam, 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**

April 29th, 5pm-8pm.

**Problem Sets**

There will be a problem set every two or three weeks. Although you are encouraged to work on the problem sets in group, answers must be handed in on your own. At the discretion of the professor, late assignments will either not be accepted or will incur a grade penalty unless due to documented serious illness or family emergency. I will make exceptions for religious observance or civic obligation only when the assignment cannot reasonably be completed prior to the due date and the student makes arrangements for late submission with the professor in advance.
**Grading Policy**
This part of the course matters for a half of your final grade. Professor Strobl will decide the remaining 50%. The final counts toward 35% of your final grade. The homeworks carry 10% of the final grade. Class participation will be reflected in the remaining 5% of your grade.

**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. Do not engage in side conversations during the lecture. Repeated occurrence of such disruptions will be reflected in the final grade.

**Class Attendance**
Class attendance is mandatory and part of a student’s grade. Absences may be excused only in the case of documented serious illness, family emergency, religious observance, or civic obligation. If you will miss class for religious observance or civic obligation, you must inform you instructor no later than the first week of class.

**Course Outline**
We will cover chapters 14 through 23 of BKM in class. Although I encourage you to read also the remainder of the book, only the knowledge of BKM 14-23 is required to pass the exam. A class by class description of topics, BKM chapters, readings and problems sets can be found at the class web page. Here is a sketch.

**Class 1-4 (3/11,16,18,23): Fixed Income**
BKM 14,15,16
Bonds and yields
The term structure of the interest rate
Duration and immunization

**Class 5-8 (3/25,30,4/1-6): Options Markets and Valuation**
BKM 20-21
Option markets
Option strategies
The binomial pricing model
The Black and Scholes valuation formula

CLASS 9-10 (4/8,13): FUTURES MARKETS
BKM 22-23
Motivation
Forward and Futures
Types of Contracts
Trading mechanisms
Trading strategies
Pricing Futures contracts

CLASS 11-13 (4/15,20,22): ADVANCED TOPICS
BKM 17-18 and lecture notes
Macroeconomics and Finance
Equity valuation
Forecasting volatilities and correlations
International Asset Allocation

CLASS 14 (4/27): REVISION FOR THE FINAL