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# FIN 70670: Investments

## Fall 2020

### Syllabus

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Office Hours: By appointment

**Class Meetings:** Tuesday/Thursday from 3:00pm to 4:50pm, 123 ACL Stayer Center.

#### Materials:

- Direct to Student (DTS) site for Bodie, Zvi, Alex Kane, and Alan Marcus, Investments 12e loose leaf with Connect:  
<http://shop.mheducation.com/mhshop/productDetails?isbn=1264344600>

The net price to the student is \$100 plus tax and shipping. You will gain access to the online book for the first two weeks of the class.

- Trading and Electronic Markets: What Investment Professionals Need to Know, by Larry Harris. This is a free book published by the CFA. I will post this book on Sakai.
- Angel, Jim, Larry Harris, and Chester Spatt, 2015. Equity Trading in the 21<sup>st</sup> Century: An Update, *Quarterly Journal of Finance* 5, 1-39. I will post this article to Sakai.
- Maloney, Michael and Harold Mulherin, 2003. The Complexity of Price Discovery in an Efficient Market: The Stock Market Reaction to the Challenger Crash, *Journal of Corporate Finance* 9, 453-479. I will post this article on Sakai.
- A three ring binder to hold the course notes, which will be handed out periodically in class and posted to Sakai.
- Subscribe to Money Stuff (which is free).  
<https://www.bloomberg.com/opinion/articles/2019-08-19/we-looks-out-for-our-selves>

#### Description:

This course is an introduction to investments and is intended to promote and develop critical thinking and problem-solving skills within the context of investments. Your primary objective in this course is to learn the basic concepts and principals of financial analysis from a professional investor's point of view. The course provides an overview of various financial instruments and the marketplaces in which they are traded. The course also provides a detailed analysis of stock,

bond, futures, and options valuation. After this course, you should have a basic understanding of risk and return, portfolio theory, bond pricing, interest rate risk, hedging, financial engineering, options, and market efficiency.

This will be a challenging course with high *personal* payoffs. The topics and material we will cover are difficult to grasp the first time through and will require substantial contemplation before you gain a working knowledge of Investments. You must read the text closely, work the suggested problems, follow the discussion in class, and most importantly, think about the questions you have. You must devote time outside of the classroom to grasp this material.

### **Honor Code:**

- All students must comply with University policies for conduct and academic honesty (see Undergraduate Academic Code of Honor at [honorcode.nd.edu](http://honorcode.nd.edu)). All students are expected to act in a professional and ethical manner. To make sure there are no distractions to colleagues and instructor, please keep all communication devices in silent mode or turned off, and please refrain from using a laptop or tablet during class.

### **Adjustments we will make in Fall 2020 because of Covid-19:**

- We are wading into uncharted waters this semester. There is a possibility that one or more of us become exposed to Covid-19 and have to quarantine for a period of time. Here is my plan for dealing with this. I will treat excused absences the same way that I always do.<sup>1</sup> If you miss a class, you will be expected to get notes from a classmate (or from me) and go over them on your own. Assuming that our class is captured on video, I will post the video to our Sakai site. Watching this video may also help you to see what you missed.
- I will not try to incorporate students who watching class on zoom into the classroom discussion. I believe doing so would prove to be a disruption to the flow of the class because of the latencies involved. So, as an alternative, I will present a ‘cliff notes’ version of each week’s lectures during zoom office hours on **Friday afternoon from 2:15pm to 3:45pm each week**. During these office hours, I will present a ‘cliff notes’ version of what we covered during the week. I intend for there to be give and take during this cliff notes discussion. Everyone who is enrolled in the course can attend the cliff notes lecture. Students are strongly encouraged to have a camera turned on so that we can see each other. I strongly suggest that students go over the material that was covered in the class(es) that they missed prior to attending my zoom office hours on Friday so that they can help me focus my discussion on topics that were not clear. I will record my office hours and post them on our course’s Sakai site. My TA, Justin Braun, will also have zoom office hours two days per week. Justin’s task will be to help you on the problem sets that are assigned throughout the course. Finally, I will schedule additional office hours by appointment. We can meet virtually or, if necessary, in a room with a chalk board that is large enough for social distancing.

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<sup>1</sup> For information as to how to obtain an excused absence, please see: <https://sarabea.nd.edu/current-students/>

- If you happen to be in quarantine on a day that an exam is scheduled and feel up to taking the exam, I will email you the exam when I hand the exam out to the class and you can take it off site. Individuals taking the exam offsite will be expected to log onto a zoom call and take the exam while the zoom camera is engaged. When the exam is over, you can scan it (there are free phone apps) or take pictures of it and send it to me via email. If you have an excused absence and do not feel up to taking the exam, I will write a make-up exam that you can take when you recover.
- If I have to be quarantined, I intend to teach the course **synchronously** via zoom. The course will be held during the normally scheduled class time. I hope that all students have access to a camera so that I can interact with you even if I am in quarantine. I believe that having synchronous classes on zoom is a reasonable alternative to having in-person classes.
- On the first day of class, you will be assigned a seat for the course. Please sit in this seat throughout the semester. We are doing this so that if one of you becomes infected with Covid-19, it will be easy to identify the students that should be tested.

### Course Guidelines:

- I strive to provide a positive learning experience to all students. You should expect to be called on during class – I find that engaging with students enriches the in-class experience. If you are having problems following the class, I encourage you to contact me as soon as possible. The sooner you see me, the easier it is to solve any outstanding problems.
- Attendance is expected. Students are responsible for all material, handouts, announcements and assignments presented in class. Late assignments will be penalized, if at all accepted.
- Examinations will be given on announced days during regular class periods (or the scheduled final exam time).
- Cellular phones and other similar types of communication electronic devices will not be allowed during exam times. You will need a standard calculator (that does exponentials etc.).

### Assignments:

1. **Problem Sets:** There will be four (4) problem sets. Each student must hand in his/her solution. You can work on the problem sets with others. **Late problem sets will not be accepted.** If you are unable to attend class that day, even if due to a University excuse, please make sure that I receive your problem set by the start of class (either a hard copy or email solutions before class starts). The answers will be circulated soon after the assignments are handed in. Justin Braun, my TA, has been instructed to help you when you

get stuck on the problem sets. So, start them early so that you can reach out to Justin for help.

2. **Exams:** There is one midterm and one comprehensive final exam. As an incentive for students to understand the problems that I place on the problem sets, I will use the problem sets as motivation when writing each exam.

**Grades:**

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<b>Assignment/Task</b>	<b>Points</b>
Four Problem Sets (worth 50 points each)	200
Midterm Exam (TUESDAY, SEPTEMBER 8, 2020)	350
Comprehensive Final Exam (THURSDAY, OCTOBER 2, 2020)	450

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\*\* If your performance on the final exam relative to the class average on the final is better than your performance on your midterm relative to the class average, I will replace your midterm grade with your final grade. Topics covered after the midterm, however, may be somewhat over-represented.

The final course grade is curved to respect the Department's required course average range set to be between 3.5 and 3.6.

**Tentative Course Outline – SUBJECT TO CHANGE.**

**Please note:**

- I may add or remove material based on the class progress;
- Assignment due dates are specified in their specific handout;
- BKM refers to Bodie, Kane and Marcus book. The textbook readings are suggested (i.e., not required) and are intended to supplement the lectures.
- TEST DATES are FIRM!

<b>Class</b>	<b>Topic</b>	<b>Reading Assignment</b>
8/18	The Investment Environment Market Efficiency	BKM CHP 1 Maloney & Mulherin (2003)
8/20	Asset Classes & Financial Instruments Risk, Return, & the Historical Record	BKM CHP 2 BKM CHP 5
8/25	Risk, Return, & the Historical Record	BKM CHP 5
8/27	Indexes Short Sales Buying on Margin	BKM Section 2.4 BKM Section 3.9 BKM Section 3.8
9/1	Portfolio Theory	BKM CHP 6 BKM CHP 7
9/3	Portfolio Theory	BKM CHP 6 BKM CHP 7
9/8	<b>Midterm Exam</b>	
9/10	Capital Asset Pricing Model (CAPM)	BKM CHP 9
9/15	Fixed Income	BKM CHP 14 BKM CHP 15
9/17	Interest Rate Risk	BKM CHP 16
9/22	Futures Markets	BKM CHP 22
9/25	Option Markets: Introduction	BKM CHP 20
9/29	Option Valuation	BKM CHP 21
10/2	<b>Final Exam</b>	

## Supplementary Readings:

DeLong, Bradford and Konstantin Magin, 2009. The U.S. equity return premium: Past, present and future, *Journal of Economic Perspectives* 23, 193-208.

Fama, Eugene and Kenneth French, 2004. The capital asset pricing model: Theory and evidence, *Journal of Economic Perspectives* 18, 25-46.

Gregory, Deborah and Miles Livingston, 1992. Development of the market for U.S. treasury strips, *Financial Analysts Journal* 68-74.

Jacobson, Christopher, 2017. Derivatives Daily: GE: A view from options, SIG analyst note.

Jarrow, Robert, 1999. In honor of the Nobel Laureates Robert C. Merton and Myron S. Scholes: A partial differential equation that changed the world, *Journal of Economic Perspectives* 13, 229-248.

Kaufman, George, 1984. Measuring and managing interest rate risk: A primer, *Economic Perspectives*, 16-29.

Lamont, Owen, 2012. Going down fighting: Short sellers vs. firms, *Review of Asset Pricing Studies* 2, 1-30.

Lamont, Owen and Richard Thaler, 2003. Anomalies: The law of one price in financial markets, *Journal of Economic Perspectives* 17, 191-202.

Lettau, Martin and Ananth Madhavan, 2018. Exchange-traded funds 101 for economists, *Journal of Economic Perspectives* 32, 135-154.

Malkiel, Burton 2003. The efficient market hypothesis and its critics, *Journal of Economic Perspectives* 17, 59-82.

Wolfers, Justin and Eric Zitzewitz, 2004. Prediction markets, *Journal of Economic Perspectives* 18, 107-126.