

ECN 365, Investment Analysis I Department of Economics and Finance, Fall 2018

I. COURSE INFORMATION

Instructor: Luca V.A. Colombo
Instructor's Email: lcolombo@fus.edu
Office Hours: We. 14:00 – 16:00; 18:45 – 20:45; and by appointment
Class location: Kaletsch Campus Bldg., Classroom 5
Class meeting times: We. 16:00-18:45

II. COURSE DESCRIPTION

This course focuses on the basic concepts of value and risk, and explores the principles that guide strategic investment decisions. Major emphasis is placed on the notion of net present value, the evaluation and pricing of bonds and stocks, and the definition and measurement of risk. The concepts of portfolio risk and expected return, as well as the role of portfolio diversification are carefully investigated. Students are then introduced to market efficiency, portfolio theory and the relationship between risk and return in the context of alternative theories, mainly the capital asset pricing model and the arbitrage pricing theory.

III. RATIONALE

This course is designed to provide students with a consistent set of tools allowing a systematic analysis of a variety of financial issues.

IV. COURSE GOALS

The mechanisms presiding financing and investment decisions by firms and their behavior in financial markets, as well as the trade-off between risk and return, are carefully investigated. The conflicts of interests among the different constituencies of the firm and the possible solution to them are also explored. The characteristics of financial markets are then studied, focusing in particular on the impact of information and that of asymmetries and information on pricing and firms' financial decisions.

V. SPECIFIC LEARNING OUTCOMES

Upon completion of this course, students will be able to: understand the investment and financial decisions of firms; recognize the trade-off between risk and return; price bonds and stocks, evaluating alternative investment and financing opportunities; evaluate financial assets portfolios and exploit portfolio diversification; recognize the main characteristics of real financial markets and evaluate the impact of information and market imperfections on the behavior of firms and investors

VI. REQUIRED TEXTS AND MATERIALS

R.A. BREALEY, S.C. MYERS, and F. ALLEN, Principles of Corporate Finance, McGraw Hill, Last Edition.

The instructor's class notes will also be an essential reference for the entire course.

VII. ASSESSMENT OVERVIEW

The final grade will be based on class participation and on a student's performance in a portfolio game, three graded problem sets (additional problem sets will be assigned every week, but not formally graded), a midterm exam, and a final exam.

VIII. ASSESSMENT DETAILS

The final exam will include all the material covered in the course. Instructions about homeworks and the portfolio game will be given in due time. The weights of each of the above components in the computation of the final grade is the following:

Class participation, portfolio game and homeworks	30%
Midterm exam	30%
Final examination	40%

IX. GRADING POLICIES AND EXPECTATIONS

At the end of the semester, a student's total points will be translated into the final grade as determined by the following grading scale: 90-100=A; 80-89=B; 70-79=C; 60-69=D; 0-59=F (plus/minus when applicable).

X. HOW TO DO WELL IN THIS COURSE (POLICIES / REQUIREMENTS)

Attendance is essential to perform well in the course. Absences may lower the course grade. Announcements that are made during lectures will carry the full force of assignments and instructions contained in this syllabus. New material introduced in lectures will be covered in subsequent exams. Students are responsible for any missed information. Extended absences may result in the student being dropped from the class roll.

Absences from exams and delays in handing in homeworks will only be excused if due to student's illness or family emergency. In the case a student can anticipate that she (he) will miss an exam, she (he) is required to make every effort to notify the instructor in advance of the exam to be missed by phone, email, or with a message to reception. In case of a severe emergency that precludes advance notice, this contact must be made as soon as possible after the absence. A condition of illness or serious family emergency forcing a student to miss an exam needs to be formally certified. No exceptions will be made. Make-up examinations will normally be given during the final exam week.

X. ACADEMIC INTEGRITY: STATEMENT ON CHEATING AND PLAGIARISM

A student whose actions are deemed by the University to be out of sympathy with the ideals, objectives or the spirit of good conduct as fostered by the University and Swiss community, may be placed on Disciplinary Probation or become subject to

dismissal from the University. Cheating is a dishonest action out of sympathy with the ideals, objectives and spirit of the University. Furthermore, cheating reflects negatively on one's personal integrity and is unjust to those students who have studied.

See the Academic Catalog for full statement (page 199): https://www.fus.edu/images/pdf/FUS_ACADEMIC_CATALOG_2018_2020_web.pdf

XII. RESOURCES AVAILABLE

Writing and Learning Center: For all writing and learning support issues (time management, study skills, preparing for exams, reading and presentation skills, and all steps of the writing process from brainstorming a paper to outlining, editing to proofreading) schedule an appointment with a tutor by going to the website wlc.setmore.com. Drop-in assistance 10am-5pm (Fridays only 10am-3pm). Tutors can give you individual one-one-one support in all of these areas. For further inquiries, contact Ann Gardiner, WLC Director (agardiner@fus.edu) or Olivia Della Croce, WLC Assistant Director (odellacroce@fus.edu).

Honors Society: This offers an added opportunity for students seeking to pursue their academic interests. The program is especially suitable for students contemplating graduate study after Franklin. Contact Professor Marcus Pyka (mpyka@fus.edu), LAC 12.

XIII. COURSE SCHEDULE

	SUBJECT	READING ASSIGNMENTS
AUG. 29	Fundamental concepts and puzzling problems in finance. An introduction	1, 35
SEPT. 5	Present value and the opportunity cost of capital; inter-temporal budget constraint and investment opportunities	2
SEPT. 12	How to calculate present value: multi-period cash flows and perpetuities. A digression on Interest rates	3
SEPT. 19	The present value of common stock. Market capitalization rate and earnings per share. The pricing of growth and income stocks	4
SEPT. 19	FIRST PROBLEM SET ASSIGNED (DUE ON SEPT. 26)	
SEPT. 26	<i>Review Session</i> Net present value and investment decisions. The value of a business. The alternatives to present value and their limits	5, 6
OCT. 3	Measuring and calculating risk: stylized facts and basic concepts	7
OCT. 10	The computation of portfolio risk and the role of diversification. The impact of individual securities on portfolio risk	7
OCT. 17	MIDTERM EXAMINATION	
NOV. 7	Portfolio theory: the relationship between risk and return The Capital asset pricing model (CAPM)	8 8
NOV. 14	The alternatives to the CAPM: the arbitrage pricing theory	8
NOV. 14	SECOND PROBLEM SET ASSIGNED (DUE ON NOV. 21)	
NOV. 21	<i>Review Session</i> An introduction to corporate financing: the concept of market efficiency and the random walk theory	13
NOV. 28	The basics of corporate financing: how corporations issue securities. The relevance of the capital structure: an introduction.	14, 15
NOV. 28	THIRD PROBLEM SET ASSIGNED (DUE ON DEC. 5)	
DEC. 5	<i>Review Session</i>	
DEC. 12	FINAL EXAM (16:00 – 18:00)	