



THE UNIVERSITY OF NEW SOUTH WALES

SYDNEY • 2052 • AUSTRALIA

SCHOOL OF BANKING & FINANCE

FINS5513: SECURITY VALUATION AND PORTFOLIO SELECTION **Course Outline, Session 1 2003**

Objective

This course is designed to provide students with the basic conceptual framework to understand issues in modern investment theory. Models of portfolio optimization, equity and bond pricing, the term structure of interest rates, and derivative securities are introduced. Empirical evidence and practical techniques will also be discussed. Students will learn to evaluate alternative investment strategies, and to develop a more complete appreciation of the risk-return relationship and recent developments in investment research.

Lecturers

Lecturers	Lecture	Room	Telephone	Consultation Hours
Dr. Jian-Xin Wang (Lecturer-in-Charge)	1-4	QUAD3074	9385-5863	Wednesday, 4-6pm
Dr. Li Yang	5-6	QUAD3059	9385-5857	Monday, 4-6pm
Eliza Wu	8-10	QUAD3023B	9385-5984	
Prof. Doug Foster	11-14	QUAD3056	9385-7371	Wednesday, 4-6pm

Prerequisites

Modern investment theory, by necessity, is very mathematical. A solid math background, including probability theory and statistical methods, is required. The prerequisite subjects are ECON5103: Business Economics and ECON5203: Statistics for Business. Before the start of the lectures, students are advised to get familiar with the materials covered in BKM Chapters 1-5 and the quantitative review in Appendix A.

Required Text and Readings

Investments, by Z. Bodie, A. Kane, and A. Marcus (BKM), 5th Ed., McGraw-Hill Irwin, 2002.

Reference Books

Essentials of Investments, by Z. Bodie, A. Kane, and A. Marcus, McGraw-Hill Irwin, 2001.

Options, Futures, and Other Derivatives, by John C. Hull, 4th Ed., Prentice Hall, 2000.

Assessment

Midterm Exam (covers lectures 1-6)	40%
Two Assignments, 10% each	20%
Final Exam (covers lectures 8-14)	40%

Students who fail to complete any component will be awarded an unsatisfactory failure (UF). The only exception is for medical reasons, which must be supported by medical certificates.

Web Page

This subject has a web site: <http://banking.web.unsw.edu.au/fins5513>. It contains the subject outline, lecture notes, assignments, announcements, answers to back-of-chapter exercises, and additional readings. Weekly lecture notes will be available for download on Monday before noon.

Source of Other Relevant Information

- Special Consideration & Supplementary Examination
http://banking.web.unsw.edu.au/curr/spec_cons_v6.pdf
(Note, for example, that work commitment is not a valid cause for a substitute test or changing an exam date)
- Academic Misconduct
http://www.fce.unsw.edu.au/current_students/responsibilities.shtml#misconduct
- Time Table
<http://banking.web.unsw.edu.au/admin/timetab.shtml>

It must be stressed that sufficient care has been taken to make sure that these web addresses are correct at the time of preparation of this document. It is, however, beyond the control of the instructor(s) if there are any changes to these. Most of these are accessible via the main web page of the faculty, which is located at <http://www.fce.unsw.edu.au/>.

Interesting Books

Capital Ideas: The Improbable Origins of Modern Wall Street, by Peter L. Bernstein, Free Press, 1992. *The development of modern finance theory and how it has changed Wall Street.*

Against the Gods: The Remarkable Story of Risk, by Peter L. Bernstein, John Wiley & Son, 1996. *Reviews the development of probability theory and its applications to risk management.*

A Random Walk Down Wall Street, by Burton Gordon Malkiel, 7th Ed., W. W. Norton & Company, 1999. *A classic book that has educated many investors.*

Security Analysis, by Benjamin Graham and David L. Dodd, McGraw Hill, 1934. *Still in print, this is regarded as the bible of value investing. The only book you need to read according to Warren Buffett.*

Liar's Poker: Rising Through the Wreckage on Wall Street, by Michael Lewis, W. W. Norton & Company, 1989. *A book on the culture and the personalities of Wall Street trading desks.*

Lecture Schedule

Lecture	Topic	Reading
1	Introduction Risk and Return	Chapters 6-7
2	Portfolio Theory	Chapters 7-8
3	The Capital Asset Pricing Model Assignment #1	Chapter 9
4	Factor Models Arbitrage Pricing Theory	Chapters 10-11
5	Efficient Market Hypothesis	Chapter 12
6	Equity Valuation Models Assignment #1 Due	Chapter 18
7	MID SESSION EXAM	
8	Bond Prices and Yields The Term Structure of Interest Rates	Chapters 14-15
9	Interest Rate Risk Fixed Income Portfolio Management	Chapters 15-16
10	Options Markets, Options Strategies Assignment #2	Chapter 20
11	Option Valuation Hedging with Options	Chapter 21
12	Futures Markets	Chapter 22
13	Futures and Swaps Assignment #2 Due	Chapter 23
14	Performance Evaluation Performance Attribution	Chapter 24