Financial Studies Discipline

Advanced Investments FINA7481

Course Outline

Semester 1, 2008

Lecturer: Dr Robert B. Durand
Room 1.01
Phone: (08) 6488 3764
Fax: (08) 6488 1047
E-mail: Robert.Durand@uwa.edu.au
URL http://www.biz.uwa.edu.au/home/our_staff/staff_list/durand_robert

Lectures: The lectures are in the Myers Street Lecture Theatre except for the lecture on Tuesday, May 27th, which will be held in the Conference Room on the third floor of the Economics and Commerce building (the same room where we have our Friday morning seminars).

Assessment: 1. Revision exam (2½ hours): 20%
2. Mid-semester exam (2 hours): 20%
3. Final exam (4 hours): 60%

The revision exam (2 ½ hours) will be held in class on Friday, March 14th. Bring your calculator.

The mid-semester exam (2 hours) will be held in class on Friday, April 18th.

The final exam will be held on Saturday, June 14th (noon to 4pm).

The revision exam will cover the material you are required to remember from Investment Analysis and also readings from the preliminary readings booklet (notably, both of Fama’s papers on efficient markets). The multiple choice questions will be based on material covered in chapters 1 to 13, 24 and 25 from Bodie, Kane and Marcus and in chapters 1 to 7, 19 and 20 from Brailsford, Heaney and Bilson (detailed references to the books will be found below). Both books cover the
same material and I envisage you need only use one of them for your revision. **There will be 55 multiple-choice questions (each worth one mark) and 2 essays.** I trust that having a revision exam so early in the semester will convince you that, at this level of study, we are serious when we assume that you have mastered the material in earlier years.

Students who require special examination conditions for the revision, mid-semester or final examination must inform the University’s Disability Officer (Phone: 6488 3809 or uniline@uwa.edu.au) as soon as possible and at least two weeks prior to the examination date, to allow adequate time to provide the necessary facilities. The Disability Officer will contact the lecturer-in-charge of the unit to communicate any special requirements.

**Prerequisite**

1) Investment Analysis Investment Analysis FINA3324 (the course formerly known as 460.324) or equivalent.

   Knowledge of this prerequisite will be examined in the revision exam in the second week of semester. In particular, it is assumed that you have an excellent knowledge of the material covered in either:
   - Bodie, Z., Kane, A., Marcus, A.J. (1999 or 2002), *Investments* (Mc-Graw-Hill, Boston), Chapters 1 to 13, 24 and 25 (the chapters cover the same material in both editions); or

2) A moderate ability in basic statistics (econometrics) will make your life comfortable. While knowledge beyond basic statistics of (at least) Economic and Business Statistics will not be assumed, students will be on a steep learning curve as we revise and introduce concepts that are required to adequately understand the material we need to cover. Damodar Gujarati’s *Basic Econometrics* (Third edition, Mc-Graw-Hill, New York, 1995) is an old favourite that students have benefited from reading.

3) A thorough understanding of the material in the **preliminary reading booklet**. In particular, you must be familiar with the ideas presented in Fama’s two seminal papers (which you surely must be familiar with from your previous reading) and the preliminary reading in your course reader:

While you may not understand everything in these articles and the other material in the preliminary readings, they provide some orientation to the material we will cover. Indeed, they have been examinable in previous years.

The better you remember Investment Analysis, and the better you understand statistics, the better you will do in Advanced Investments.

**Textbook**

Advanced Investments is based on articles published in leading Finance journals. The booklet of preliminary readings and material for weeks 1 to 2 will be available from Ms. Tanya Kršnik (tkrsnik@biz.uwa.edu.au) in the Accounting and Finance office. You must collect them as they are too heavy, and I am too lazy, to carry them to the lecture theatre for you. I will inform you about getting copies of the other readings in class. A complete list of *all* of the articles will also be provided to you in class.
Other books that may be useful will be available in the closed reserve of the library. They are:

1. **Finance** (Elsevier, Amsterdam, 1995) edited by R.A. Jarrow, V. Maksimovic and W.T. Ziemba. An excellent overview of Finance as it stood in the mid-1990’s written by the leading experts in their fields. This will fill in many of the gaps that I may leave. Indeed, I expect that you will find this book so valuable that you will look at it every week to see if the material we’re covering is covered in it.


3. **Asset Pricing** (Princeton University Press, Princeton, N.J., 2001) by John Cornell. This is particularly daunting in parts but it contains excellent technical discussions of many of the topics we cover. I am told that it has been adapted from notes from a particularly fearsome second year doctoral course at the University of Chicago. While technically very good, the author has an unfortunate fixation for examples featuring Happy Meals.

4. **Beyond Greed and Fear: Understanding Behavioral Finance and the Psychology of Investing** (Harvard Business School Press, Boston, Mass., 2000) by Hersh Shefrin is a good introduction to Behavioural Finance (and may indeed be the only introduction to Behavioural Finance). I really like this book but student reviews have been mixed. I think it may be a generational thing. Anyway, you’re going to get a good dose of Behavioural Finance so you need to come to terms with it; this book may help.

5. **Inefficient Markets: An Introduction to Behavioral Finance** (Oxford University Press, Oxford, 2000) by Andrei Shleifer is more advanced than Shefrin’s offering and equates “introduction” with the material he has been involved in preparing. A very useful volume as the author has worked on many seminal papers in the field.

**Plagiarism etc.**

The Faculty of Economics and Commerce insists on strict standards of academic honesty in all its courses. Plagiarism, a situation in which a student represents the work of others as his/her own work, constitutes academic dishonesty and will be punished. To reduce the risk of any unintended plagiarism, students should consult the School’s document on plagiarism. This can be found at [http://www.biz.uwa.edu.au/home/current_students/school_of_economics_and_commerce/plagiarism_policy](http://www.biz.uwa.edu.au/home/current_students/school_of_economics_and_commerce/plagiarism_policy)

**Learning Outcomes**

Advanced Investments extends material introduced in your undergraduate Finance courses (notably, Investment Analysis FINA3324 - formerly 460.324 - or the equivalent).

We focus on equity markets and address the three “big questions” of investment finance:

1. Why do returns vary through time?
2. Why do returns differ between portfolios?
3. Are markets efficient?

On completion of this unit, you should be able to:

- appraise and integrate the papers studied in Advanced Investments;
- evaluate the reasoning and empirical analyses of the researchers’ whose papers we study in Advanced Investments;
- evaluate proposed answers to the three “big questions” posed in Advanced Investments; and
- appraise and criticize advanced research in Investment Finance.
"THROUGH me you pass into the city of woe: Through me you pass into eternal pain... All hope abandon ye who enter here."

Such characters in colour dim I mark'd
Over a portal's lofty arch inscrib'd...

Dante Aligheri, The Divine Comedy
Douglas Adams, The Hitchhiker’s Guide to the Galaxy

The structure of the course is as follows:

<table>
<thead>
<tr>
<th>Week</th>
<th>Date</th>
<th>Topic</th>
</tr>
</thead>
</table>
| 1    | Tuesday, March 4,          | *Introduction*  
|      | Information (3)           |                                                 |
| 2    | Tuesday, March 11,         | Information (continued)                         |
|      | Friday, March 14,          | **Preliminary exam (2.5 hours)**                |
| 3    | Tuesday, March 18,         |                                                 |
| 4    | Tuesday, March 25,         | The Fama-French 3-Factor Model                   |
|      | Friday, March 28,          |                                                 |
| 5    | Tuesday, April 1,          |                                                 |
| 6    | Friday, April 4,           | Market "efficiency", economic and fundamental factors |
|      | Tuesday, April 8,          |                                                 |
|      | Friday, April 11,          |                                                 |
| 7    | Tuesday, April 15,         | **Review session**                               |
|      | Friday, April 18,          | **Mid-semester exam (2 hours)**                 |
| 8    | Tuesday, April 29,         |                                                 |
| 9    | Tuesday, May 6,            | Behavioural Finance                             |
|      | Friday, May 9,             |                                                 |
| 1    | Tuesday, May 13,           | Momentum                                        |
|      | Friday, May 16,            |                                                 |
| 11   | Friday, May 23,            | **Liquidity (3)**                               |
|      | Tuesday, May 27,           | The Internet Bubble and                         |
|      | The venue will be          | Conclusion (3) (3rd floor conference room)      |
| 12   | different for this lecture.|                                                 |

No one wants classes on the last Friday of semester so we’ll replace lectures with extended consultation hours to help you prepare for your final exam!

**Results**

The results of this unit may be scaled in accordance with Faculty guidelines. The University’s guide for appeals may be found at [http://www.secretariat.uwa.edu.au/__data/page/20777/appeal-guide3.rtf](http://www.secretariat.uwa.edu.au/__data/page/20777/appeal-guide3.rtf)

And, after all that, enjoy the course.

Robert Durand.
February 6th, 2008