

East China Normal University
BUSI 25 Portfolio Management

Instructor: Ying Wang

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Home University: East China Normal University

Semester: June 27 to July 15, 2022

Course Hour: Monday through Friday, 160 mins per teaching day;

Total Contact Hours: 64 contact hours

Credits: 4

Designated Textbook with ISBN:

Bodie, Z., Kane, A. and Marcus, A.J. (2018). Investments, 11th Edition, McGraw-Hill Education ISBN: 9780077861674

Course Prerequisite:

Foundations of Finance

**Notes: The course might be moved to online delivery due to COVID-19 pandemic. Students will be notified once such decision is made.*

Course Overview

This course mainly contains five sections: Introduction, Portfolio Theory and Practice, Equilibrium in Capital Markets, Fixed-Income Securities, and Options, Futures & Other Derivatives. We will introduce the investment environment and macroeconomic and industry firstly. Then, the various asset classes, such as bonds, equity securities, stock and bond market indexes, mutual funds, and other types of derivatives and investment companies will be illustrated. Further, we go to the important section, the portfolio theory. In this part, you will learn how to allocate capital to risky assets, diversification for risky portfolios, especially the famous Markowitz portfolio and the index models. Also, the equilibrium theory which includes CAPM, APT and EMH will also be introduced. Finally, we will go more details into some financial instruments. We will study the characteristics and pricing of bonds and the term structure of interest rates, as well as the options and futures. There will be two written exams (Mid-term and Final), which will be scheduled on Day 8 and Day 15 correspondingly.

Learning Outcomes

- Analytical skills and an eye for details
- Ability to understand broader business issues
- Numerical skills
- Communication and presentation skills

Upon completion of this course, students should be able to:

- Know the basic investment environment
- Understand CAPM and Efficient Market Hypothesis
- Evaluate the price of bonds
- Explain the term structure of interest rates
- Assess and compare the risk and returns for a certain portfolio
- Identify various asset classes and financial instruments

Grading Scale and Notes

The following definitions will be used as a guide for the assignment of grades:

Number Grade	Letter Grade	Definitions
94-100	A	Extraordinary distinction, indicating a full mastery of course content and excellent work.
90-93	A-	
87-89	B+	Strong performance demonstrating a high level of attainment, indicating a good comprehension of the course material and the student's full engagement with the course requirements and activities.
84-86	B	
80-83	B-	
77-79	C+	Acceptable performance, demonstrating an adequate and satisfactory comprehension of the course material and the student has met the basic requirements for completing assignments and participating in class activities.
70-76	C	
60-69	D	A marginal performance in the required exercises demonstrating a minimal passing level of attainment.
0-59	F	An unacceptable performance. The F grade indicates that the student's performance has revealed almost no understanding of the course content.

Assessment Policy

Assessment	Final Grade
Mid-Term Examination	30%
Final Examination	60%
Attendance	10%

Course Schedule

Date	Lecture	Reading/Assignments/ Examination
Day 1	Introduction I Chapter 1 The Investment Environment Chapter 17 Macroeconomic and Industry Analysis	-Real Assets vs Financial Assets -Financial Assets -Financial Markets and the Economy -The Investment Process -Markets are Competitive -Players -The financial Crisis of 2008
Day 2	Introduction II Chapter 2 Asset Classes and Financial Instruments	-The Money Market -The Bond Market -Equity Securities -Stock and Bond Market Indexes -Derivative Markets
Day 3	Introduction III Chapter 4 Mutual Funds and Other Investment Companies	-Investment Companies -Types of Investment Companies -Mutual Funds -Costs of Investing in Mutual Funds -Taxation of Mutual Fund Income -Exchange Traded Funds -Mutual Fund Investment Performance: A First Look
Day 4	Portfolio Theory and Practice I Chapter 5 Risk, Return, and the Historical Record	-Determinants of the Level of Interest Rates -Comparing Rates of Return for Different Holding Periods -Bills and Inflation -Risk and Risk Premiums -Time Series Analysis of Past Rates of Return -The Normal Distribution -Deviations from Normality and Alternative Risk measures -Historic Returns on Risky Portfolios -Normality and Long-Term Investments
Day 5	Portfolio Theory and Practice II Chapter 6 Capital Allocation to Risky Assets	-Risk and Risk Aversion -Capital Allocation across Risky

		<ul style="list-style-type: none"> and Risk-Free Portfolios -The Risk-Free Asset -Portfolios of One Risky Asset and a Risk-Free Asset -Risk Tolerance and Asset Allocation
Day 6	<p>Portfolio Theory and Practice III Chapter 7 Optimal Risky Portfolios</p>	<ul style="list-style-type: none"> -Diversification and Portfolio Risk -Portfolios of Two Risky Assets -Asset Allocation with Stocks, Bonds and Bills -The Markowitz Portfolio Optimization Model -Risk Pooling, Risk Sharing, and the Risk of Long-Term Investments
Day 7	<p>Portfolio Theory and Practice IV Chapter 8 Index Models</p>	<ul style="list-style-type: none"> -A Single-Factor Security Market -The Single-Index Model -Estimating the Single-Index Model -The Industry Version of the Index Model -Portfolio Construction Using the Single-Index Model
Day 8	Midterm Exam	2 hrs
Day 9	<p>Equilibrium in Capital Markets I Chapter 9 The Capital Asset Pricing Model (CAPM) Chapter 10 Arbitrage Pricing Theory (APT) and Multifactor Models of Risk and Return</p>	<p>CAPM:</p> <ul style="list-style-type: none"> -The CAPM -Assumption and Extensions of the CAPM -CAPM and the Academic World -CAPM and the Investment Industry <p>APT:</p> <ul style="list-style-type: none"> -Multifactor Models: A Preview -Arbitrage Pricing Theory -The APT, the CAPM and the Index Model -A Multifactor APT -The Fama-French (FF) Three-Factor Model
Day 10	<p>Equilibrium in Capital Markets II Chapter 11 The Efficient Market Hypothesis (EMH)</p>	<ul style="list-style-type: none"> -Random Walks and the Efficient Market Hypothesis -Implications of the EMH

		<ul style="list-style-type: none"> -Event Studies -Are Markets Efficient -Mutual Fund and Analyst Performance
Day 11	Fixed-Income Securities I Chapter 14 Bond Prices and Yields	<ul style="list-style-type: none"> -Bond Characteristics -Bond Pricing -Bond Yields -Bond Prices over Time -Default Risk and Bond Pricing
Day 12	Fixed-Income Securities II Chapter 15 The Term Structure of Interest Rates	<ul style="list-style-type: none"> -The Yield Curve -The Yield Curve and Future Interest Rates -Interest Rate Uncertainty and Forward Rates -Theories of the Term Structure -Interpreting the Term Structure -Forward Rates as Forward Contracts
Day 13	Options, Futures & Other Derivatives Chapter 20 Options Markets Chapter 22 Futures Markets	Options: <ul style="list-style-type: none"> -The option contracts -Values of options at expiration -Option strategies -The put-call parity relationship -Option-like securities -Financial Engineering -Exotic options Futures: <ul style="list-style-type: none"> -The futures contract -Futures Markets Strategies -Futures prices
Day 14	Course Review	
Day 15	Final Exam	2 hrs



Reading List:

Corresponding chapters in Bodie, Z., Kane, A. and Marcus, A.J. (2018).
Investments, 11th Edition, McGraw-Hill Education