SYLLABUS
PORTFOLIO THEORY & ITS APPLICATION
FINC 415
FALL Semester 2012
THE AMERICAN UNIVERSITY IN CAIRO
School of Business
Department of Management

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Course Prerequisites: FINC 303 and FINC 404.

Vision of the School of Business

The School of Business sees itself becoming globally recognized as the leading business school connecting the region and the world.

Mission of the School of Business

The School of Business strives to create an environment that fosters the development of principled and innovative business leaders and entrepreneurs who can make a difference.

Mission of the Department of Management

Our mission is to develop business leaders who are dedicated to the betterment of society by providing a high quality business education to top caliber students from all segments of Egyptian society as well as from other countries while focusing on continuous improvement and a commitment to excellence in learning, intellectual contributions and service.

In support of this mission the department:

- Provides a high quality contemporary-style business education that blends a global perspective with national cultures and is relevant to the business needs of Egypt and the region.
- Provides programs that encourage the development of an entrepreneurial spirit that emphasizes creativity, innovation, individual initiative and teamwork
- Provides a learning environment that fosters faculty/student communication and promotes lifelong learning and career development
- Encourages faculty development activities that improve teaching, maintain competence and that keep faculty current with ideas and concepts in their field.
• Seeks to develop a portfolio of intellectual contributions to learning and pedagogy, to practice, and to the theory and knowledge base of the disciplines.

AUC is an AACSB Accredited Institution
To read more about the benefits of attending an AACSB accredited university online, go to: http://www.aacsb.edu/aacsb-accredited/students.asp#null.

Course Objectives

Portfolio management is both an art and a science. It is a dynamic decision making process, one that is continuous and systematic but also requires a great deal of judgment. The objective of this class is provide students with basic concepts and models of financial theory and introduces them to the evaluation of quantity risk and return decisions.

Prerequisites:

Competency Coverage

In addition to the specific objectives of the course, the material and activities have been selected to aid students in their progress toward achieving the following departmental learning goals:

<table>
<thead>
<tr>
<th>Learning Goal</th>
<th>Level of Coverage</th>
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<tbody>
<tr>
<td>Ethics: Each student will be able to define, analyze and evaluate ethical issues and the need for socially responsible organizations.</td>
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<tr>
<td>Leadership: Each student will be able to demonstrate knowledge of effective leadership styles, teamwork and collaborative behavior.</td>
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<tr>
<td>Communication: Each student will demonstrate effective written and oral communication skills.</td>
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<tr>
<td>Entrepreneurship: Each student will be able to identify an entrepreneurial business opportunity and write a value proposition statement.</td>
<td>2</td>
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</table>

• 1= not at all covered
• 2= covered to a limited extent
• 3= covered to some extent
• 4=covered to a large extent
Teaching Method and Guidelines

The course will consist of lectures, lab workshops, case discussions and a project. Lectures will emphasize theory with numerical illustrations, while the homework assignments and case studies will focus on real world examples. The course assumes that the student has a certain basic knowledge of finance, economics and statistics. Even if we repeat topics covered in a course such as FINC 303, FINC404, ECON 201, MACT 112 and ECON 216, we will cover the same much faster. Some familiarity with a spreadsheet package, such as Excel, is essential for tackling many of the homework assignments and cases. The course has a substantial theoretical content. The workload will be quite substantial, and it is in your best interest to attend each class and be regular with all assignments - this will ensure that you do not suddenly find yourself lagging too far behind the class. You are expected to keep in touch with the daily happenings in the financial world through journals and newspapers such as Wall Street Journal, Financial Times, dowjones.com, Fortune, Business Week, Forbes Magazine, The Economist, Alam El Youm, El-Ahram ElEktsady and Business Today just to name a few.

1. Some Things You Must Do
   - Attend every single class
   - Be on Time to Every Class! I take Attendance in First 5 minutes.
   - Participate in class discussions (intelligently!)
   - Familiarize yourself with Excel.
   - Hand in your homework assignments on time in hardcopy in class. **No email assignments will be accepted.**
   - Keep track of deadlines and midterm dates
   - Familiarize yourself with Blackboard and check the course web site on Blackboard regularly for updates, changes in syllabus, assignments, etc. The problem sets and answer keys for homework assignments will also be put up there.
   - Check your emails **twice a day** for notifications. I will be sending you emails to your inbox through blackboard.
   - I do not check Blackboard Messages. If you want something email me personally.

2. Some Things You Must NOT do
   - Collaborate on your homework assignments, midterm or final exam.
   - Violate the university policy on academic honesty - for example, do not attempt to plagiarize material from the internet or other resources in order to pass off as your work on the valuation reports. You may use financial data from the internet, but make sure the data is free for public use (or pay for it!) and acknowledge each and every such source you use with detailed citations. If you have any questions about whether you can use some particular resource, ask me first before you proceed.
**Text and Other Reading Materials**

- **Course Textbook:** “Investments (BKM)” by Zvi Bodie, Alex Kane and Alan Marcus, 8th ed., Mc-Graw Hill.
- **Suggested Readings:** “A Random Walk Down Wall Street: The Time-Tested Strategy for Successful Investing” by Burton Malkiel 2011, W. W. Norton & Company
- **Other Materials:** You may be assigned other readings for certain topics as the course progresses. These will be made accessible to you in advance of the specific class.

**Grading System**

Your performance will be evaluated on the basis of:

1. **EXAMS (45%)**
   - MIDTERM exam (25%)
   - FINAL exam (20%)
   The exams will test your understanding of the concepts rather than your memory. They will be either numerical or objective type, no derivations, no essays.

2. **HOMEWORK (10%)**
   - HW assignments will be handed out and due back in a week, NO LATE SUBMISSIONS. HARCOPY ONLY DURING CLASS!
   - Do not collaborate on HW assignments - they will provide invaluable practice for the exams. If you do, make sure you credit to your peers
   - All Assignment are counted in the grade.

3. **ATTENDENCE & CLASS PARTICIPATION AND POP QUIZZES (10%)**
   - You are REQUIRED to ATTEND EVERY SINGLE CLASS
   - You are REQUIRED to participate in class discussions (intelligently!) A portion of your participation grade will be based on the 10 minute “Investment Highlights” will have in class. More information will be given on the first day.
   - Unexcused Absents will be penalized heavily. You are allowed 3 unexcused absences; each extra absence will result in 1 letter grade deduction. Maximum absences allowed to pass a course are 8.
   - Pop quizzes will be given if the instructor sees the students no participating actively in class.

4. **CASE STUDIES (15%)**
   - Two case studies will be given throughout the course of the semester.
   - They should be solved individually and are due in a week’s time.

5. **PROJECT (20%)**
Academic Dishonesty

You are expected to be honest in all of your academic work. The University policy on academic honesty is distributed annually in the AUC Catalog. Instances of alleged dishonesty will be forwarded to the Student Judicial System. Potential sanctions include failure in the course and suspension from the University. If you have any questions about my expectations, refer to the section on Things You Must NOT Do or ask me.

The University Academic Integrity Policy

All students are expected to agree to and comply with the University Academic Integrity Policy, found on the University Web site, which states:

“Valuing the concepts of academic integrity and independent effort, the AUC expects from its students the highest standards of scholarly conduct. The University community asserts that the reputation of the institution depends on the integrity of both faculty and students in their academic pursuits and that it is their joint responsibility to promote an atmosphere conducive to such standards.”

Schedule and Topics to be Covered

<table>
<thead>
<tr>
<th>Topic</th>
<th>Chapter/readings assigned for this class</th>
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<tbody>
<tr>
<td>Introduction</td>
<td>Discussion</td>
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<tr>
<td>The Investment Background (Review from 404)</td>
<td>Notes, Chapters 1, 2, 3, 4</td>
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<tr>
<td>Statistical and Math Review</td>
<td>Notes, Handouts</td>
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<tr>
<td>Security Analysis: Bonds (Review from 404)</td>
<td>Notes, Chapters 14, 15, 16</td>
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<tr>
<td>Security Analysis: Equity (Review from 404)</td>
<td>Notes, Chapters 18</td>
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<tr>
<td>Stock Market Indices</td>
<td>Notes, Chapter 3, Handouts</td>
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<td>Utility, Risk Aversion and Risk Premium</td>
<td>Notes, Chapter 6, Appendix Chapter 6</td>
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<tr>
<td>The Capital Allocation Problem</td>
<td>Notes, Chapter 7</td>
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<tr>
<td>Portfolio of Risky Assets and Diversification</td>
<td>Notes, Chapter 7</td>
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<tr>
<td>Two Risky Assets and the Risk-Free Asset</td>
<td>Notes, Chapter 8</td>
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<tr>
<td>Asset Pricing Models</td>
<td>Notes, Chapter 9</td>
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<tr>
<td>Fund Creation and Management</td>
<td>Notes, Chapter 4, Handouts</td>
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<tr>
<td>Portfolio Performance Evaluation</td>
<td>Notes, Chapter 24</td>
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