

**Economics 295-01
Investments and Public Policy
ARH 120, 8:35-9:50, Tu-Th
Fall 2007**

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Course Description

This course provides an introduction to investments. It covers types of investments, measurement of risk and return, institutional aspects of investment markets and key concepts in investments such as efficient diversification and efficient markets. The course will consider differences between approaches for individual and institutional investors, the use and performance of mutual funds, and the implications of investment theory for both individual financial planning and related public policy issues. In addition, current issues of interest in investing such as hedge funds, private equity, and venture capital will be covered, as well as public policy on private pension guarantees, social security, and corporate governance.

Grading

5 quizzes @ 6	30%
2 mid-term exams @ 20	40%
Comprehensive final	30%
Total	100%

I will guarantee grades of 90% = A, 80% = B, 70% = C, 60% = D. I may curve the grades, but the grades will not be more stringent than this scale. If I curve the grades, I also will provide an advisory distribution after each quiz or exam, to let you know approximately where you stand at that point.

On written questions, your grade will be influenced by how well you write your answer. This includes grammar, punctuation, spelling, organization, and clarity. Improving writing skills is important at all stages of your education, and beyond. The Grinnell Writing Lab is an outstanding resource. I urge you to take a sample of your writing (one page is enough) to the lab early in the semester. Ask them to evaluate it and request their advice on what you should do to further develop your writing.

Quiz and Exam Dates

Quiz 1, Tuesday 9/18	Quiz 3, Tuesday, 11/6	Quiz 5, Tuesday, 12/4
Quiz 2, Tuesday, 10/2	Quiz 4, Tuesday, 11/13	Final, 2 PM-Tuesday 12/18
Exam 1, Thursday, 10/11	Exam 2, Tuesday 11/20	

**Scheduled Conflicts with
Quiz and Exam Dates**

If you are on a Grinnell sports team, other Grinnell activity, or have a religious holiday that requires you to be out of town on the day of a quiz or exam, I will schedule a time to give it to you earlier, but not later.

If you have such a scheduled conflict with Quiz 1 (9/18), you must give me the following information in written form by Thursday, 9/6: 1) event, 2 location, 3 dates out of town.

If you have such a scheduled conflict with any quiz or exam after Quiz 1, you must give me the conflict information in written form by Tuesday 9/25. If you anticipate such a conflict, but the dates are not yet available, please give me as much as you know now, in written form by Tuesday 9/25.

**Documented, Unscheduled Absence on
Quiz or Exam Days**

If you miss a quiz or exam and provide a valid, documented excuse, I will account for the missing grade by counting the final correspondingly more.

Office Hours

I have office hours and appointment times during those hours posted by my office door, at 204 Carnegie. Appointment times are available at a variety of different times during the week. I request that you see me during these times. All you need to do is write your name by the appointment day and time you want.

I am not available for questions before class, as I am preparing then. However, I am always available right after class for brief questions. You can also contact me by email, and generally I will respond within 24 hours, M-F.

Class Attendance

I will take roll at each class. At the end of the semester, if you are on the border line between two grades, class attendance and participation can influence your grade.

Material You are Responsible For

You are responsible for all material covered in class. If you are absent, be sure to get a set of notes from a classmate.

Taking Care of Yourself

You will not be able to “attend” either physically or mentally, if you feel sick. To some extent, this is beyond your control. However, you can shift the odds in your favor by taking care of yourself, with regard to sleep, nutrition, exercise, and time for recreation and restoration. I urge you to make this your first priority, despite all the other demands and distractions you will experience.

Preparation for Class

I expect you to read the assigned material before class. This will provide context and an introduction to the material that will make the material covered in class much easier to follow.

Responsibility for Practice Problems

Quantitative parts of investment theory and applications are best learned by working practice problems. I will give you practice problems frequently when we are covering this material. They will not be handed in and graded, so I expect you to take responsibility for using them for practice. There will be a quiz or exam approximately every two weeks, by which you can measure your progress. Each quiz or exam will have at least one question similar to a practice problem if it covers quantitative material.

Depth of Knowledge

This course is partly about learning the language of financial instruments, institutions, and about how markets are organized. In addition, conceptual material and theory are covered; this material is not about memorization. I expect you to understand this material well and to be able to apply the ideas. Doing the practice problems is the best way to deepen your knowledge on these issues.

Recommendations for Study

In addition to reading assigned material before class, I recommend that after class you recopy your notes, the same day or within 24 hours, while it is still fresh in your mind. Then I recommend that you re-read the assigned material and study it carefully. Finally, work any practice problems assigned.

Textbooks

Investments, by Bodie, Kane, and Marcus, 7th edition, 2008. Investment material needs to be kept current, and some important conceptual material has been revised, so you should get this new edition. Usually, I am supportive of using prior editions from the used book market. However, in this case, you should have the latest edition.

A Random Walk Down Wall Street, paperback, 2003 edition (It has a dart on the cover.), by Burton Malkiel.

The Wall Street Journal, subscription required. A one-semester subscription, at a reduced, student rate is available. I will pass out the sign up sheet on the first two days of class (8/30 and 9/4)

Current Affairs

I expect you to be familiar with current news about financial markets. In addition to the Wall Street Journal, other sources I would recommend are The New York Times (broader coverage of the U.S. and more international coverage), The Financial Times (published in London, primary focus on financial and economic news and more detailed international coverage), and The Economist (also published in London, a weekly news magazine with excellent international coverage and particularly strong on economic analysis, including financial markets).

Reading Assignments

Reading assignments will be given out in class. In the last few weeks of the semester, I will assign some reading in materials that will be on reserve. They are:

The Economics of Money, Banking and Financial Markets, by Mishkin. (Chapter 8, An Economic Analysis of Financial Structure.)

The Little Book of Common Sense Investing, by John C. Bogle, 2007

Battle for the Soul of Capitalism, John C. Bogle, 2005

Reinventing the Retirement Paradigm, Robert Clark and Olivia Mitchell, Editors, 2005, Oxford University Press, from the Pension Research Council, Wharton School Pension Research Council.

Topic Coverage

(See next page.)

Topic Coverage

Key Concepts, Securities, and Institutions

(Readings are from Bodie, Kane and Marcus)

Chapter 1, The Investment Environment

Chapter 2, Asset Classes and Financial Instruments

Chapter 3, How Securities are Issued and Traded

Chapter 4, Mutual Funds and Other Investment Companies

Chapter 5, Learning about Return and Risk from the Historical Record

Stock Valuation and Portfolio Selection

(Readings are from Malkiel)

Part One: Stocks and their Value (Chapters 1-5)

Part Two: How the Pros Play the Biggest Game in Town (Chapters 6-8)

Part Three: The New Investment Technology (Chapters 9-11)

Part Four: A Practical Guide for Random Walkers and other Investors (Chapters 12-15)

Public Policy and Investments

Financial Market Structure and Regulation (Mishkin, Chapter 8)

Pension Policy (Clark and Mitchell)

Private Pension Guarantees

Reinventing Social Security

Corporate Governance (Bogle, 2005)

Private Equity and Venture Capital (Recent Articles in the News)