

**Portfolio Selection &  
Capital Market Theory (132A)**

**Winter 2006**

Michelle R. Garfinkel  
Office: SSPB 3257

Office hours: MW 2-3pm  
Email: mrgarfin@uci.edu

**Course description.** This course introduces students to modern theories of investment and their application to the study of financial markets. Specific topics include the relation between risk and return, diversification, asset pricing, efficient markets hypothesis, and the market valuation of stocks, bonds, options, and futures.

**Prerequisites.** Econ. 110A-B-C or the equivalent and Econ 100A-B-C.

**Textbook.** Zvi Bodie, Alex Kane, and Alan J. Marcus. *The Essentials of Investments* (Irwin/McGraw Hill, 6th Edition 2006).

**Course outline and readings.**

1 Basic concepts & an overview of securities markets	1-3
2 Portfolio theory	
2.1 Risk & return	5
2.2 Asset allocation & diversification	6
2.3 Asset pricing theories	7
3 Valuation of securities and derivatives	
3.1 Bonds	9
3.2 Equity	12
3.3 Options contracts and pricing	14,15
3.4 Forward and futures contracts	16
4 Market efficiency & behavioral finance	8,19

**Course web page.** The url is: <<http://eee.uci.edu/06f/62175/>>. Please be sure to visit the course web site regularly, as all materials for the class, occasional messages and any changes in the schedule will be posted there.

**Course requirements.** Over the quarter, I will assign problem sets on a fairly regular basis to help you develop a solid command of the material. These will be posted on the course web site. I strongly encourage you to work together in study groups. But, each student must submit his/her own set of solutions.

In addition, there will be two exams (including the final exam) consisting of problems and short answer/essay questions.

**Grades.** Your final grade will be assigned on the basis of a weighted average of your scores on the problems sets (10 percent) and the two exams (40 percent for the midterm and 50 percent for the final).