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| **Title** | | | | **Security Analysis** | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
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| **Lecturer** | | | | **Dick Davies** | | | | | | | | | | | | Tutor | | | TBC | | | | | | | | | | | | | |
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|  | | Code | | | AG918 | | | | Semester | | | 2 | | Weeks | | | | | | 1 – 6 | | | Credits | | | | 10 | | |  | | |
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|  | **Assessment** | | | | |  | | Examination | | | | 70% | | | | |  | Coursework | | |  | | | |  | Test | | 30% | | |  | |
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|  | Finance | | Option | | | |  | | | Int. Banking & Fin. | Option | |  | | Investment & Fin. | | | | | Compulsory | |  | | Int. Accounting & Fin. | | | | | option | | |  |
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## CLASS AIMS

The aims of this class are to develop an appreciation of the investment characteristics of different types of securities, particularly bonds and shares, and to develop an understanding of how such securities can be valued. This class will build on the analysis developed in the first semester class, Principles of Finance, and will consider the determination of interest rates, the valuation of bonds and the valuation of shares.

## LEARNING OUTCOMES

The class provides opportunities for students to develop and demonstrate knowledge, understanding and skills in the following areas:

**i) Knowledge Based Outcomes:**

On completing this course students will be able to:

* understand the nature of investments in bonds;
* develop the relationship between interest rates and the prices of bonds;
* differentiate between spot rates, forward rates and yields;
* use duration and convexity in the analysis of the price sensitivity of bonds to interest rate changes;
* explain the determinants of interest rates and different theories of the term structure of interest rates;
* identify and explain the determinants of bond prices;
* understand corporate bonds and credit risk;
* develop equity valuation models – dividend, earnings, free cash flow and multiplier based models;
* understand the nature of share price movements;
* interpret the evidence relating to market efficiency;
* evaluate the overall level of share prices and their links to the real economy;
* recognise the difficulties of forecasting earnings.

**ii) Skills Outcomes**

On completion of this class students should be able to demonstrate that they can:

* model relationships;
* interpret and evaluate empirical evidence; and
* take decisions under risk and uncertainty.

**TEACHING AND LEARNING**

There are 15 contact hours and the teaching will be on the basis of lectures (10 hours) and workshops (5 hours). The workshops will discuss the various topics covered in the lectures and provide opportunities for students to test and develop their understanding of the application of the analysis through the quantitative analysis of problems. Students are expected to attempt workshop questions prior to the workshop and the attendance at workshops is compulsory.

**ASSESSMENT**

A class test in the form of multiple choice questions will account for 30 percent and the final examination for 70 percent of the assessment. The class test will involve a number of quantitative and conceptual questions to be completed in 1 hour. The final examination will be made up of a series of compulsory short quantitative and conceptual questions, and an essay section that will assess class participants’ understanding of the theoretical basis of the analysis. The final examination will take place in the April/May diet of examinations and last two hours. Any reassessment will be via a re-sit exam of the same format as the main exam.

**READING**

Z Bodie, A Kane, and A J Marcus, “Investments and Portfolio Management”, McGraw-Hill, 11th (Global) edition 2017. (BKM)

**Further Reading**

E J Elton, M J Gruber, S J Brown, and W N Goetzmann, “Modern Portfolio Theory and Investment

Analysis”, John Wiley, 9th edition 2014

## LECTURE PROGRAMME

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| **Session** | **Lecture Title/Subject/Content** |
| **1** | Review and development of bond analysis |
| **2** | Interest rate concepts, the determination of interest rates, and the term structure of interest rates. |
| **3** | Price sensitivity of bonds; duration and effective maturity; and convexity; interest rate immunisation and bond portfolio management |
| **4** | The nature of equity investments: evidence on equity returns. |
| **5** | Equities and efficient market theory: interpreting efficient market theory; testing different forms of market efficiency; a review of anomalous evidence; behavioural finance and market efficiency. |