

# Unit Plan

Unit Code: **ECF5610/4610**  
Unit Title: Investment Finance  
Semester: Two  
Year: 2012



*[The information below is optional if it suits the particular school processes. Claims as to authorship should be avoided. Unit plans are prepared as part of the coordinating role and the "intellectual property" belongs to ECU.]*

## School of School of Accounting, Finance and Economics

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CRICOS IPC 00279B

Prepared by: Dave Allen

Version (30/7/12)

# ECF5610/4610 Investment Finance

Lecturer(s) *[insert or leave blank for names of overseas teaching staff when plan is intended for IP/NP delivery]*

Name	Room no	Contact number/s	Email	Consultation times
Professor D.E. Allen	JO 2.355	63045471	d.allen@ecu.edu.au	By appointment

Unit Coordinator

Name	Room no	Contact number/s	Email	Consultation times
As above				

Tutor(s) *[insert or leave blank for students to complete]*

Name	Room no	Contact number/s	Email	Consultation times
n/a				

Lecture(s) and location *[insert or leave blank when plan is intended for IP/NP delivery]*

Day	Time	Room No.
Monday	5.30 pm – 8.30 pm	JO 02.128

Tutorials(s) and location *[insert or leave blank for students to complete]*

Day	Time	Room No.

Other staff contacts

Name	Role	Room no	Contact number	Email
N/a				

Learning Advisor Contact details

Campus	Room no	Contact number	Email
Mount Lawley	ML 10.112	9307 6590	fblearning@ecu.edu.au
Joondalup	JO2.133	6304 2511 or 63045268	fblearning@ecu.edu.au

## Resources

### FBL Academic Skills Centre

The Faculty of Business and Law Academic Skills Centre offers a range of services which will complement the discipline-specific knowledge you gain from this unit. These services include:

- Unit- integrated skills workshops
- Academic Skills workshops
- Writing Plus Program
- Assignment labs
- Individual consultations
- On-line support

You are strongly advised to access these services to assist in developing the academic and language skills required to succeed in this unit.

A copy of the Workshops Timetable can be found on the Academic Skills Centre Blackboard site located under My Communities on Blackboard.

The contact details for the Academic Skills Centre are listed at the front of this unit plan.

## Academic Misconduct

The Academic Skills Centre Blackboard site has some useful resources to help you develop your skills in referencing and paraphrasing (and hence avoiding plagiarism). There is also information about how to use Turnitin.

## Introduction

### School of Accounting, Finance and Economics ECF 54610/5610 Investment Finance V

Edith Cowan University  
Faculty of Business and Public Administration  
School of Accounting, Finance and Economics.  
Finance Honours and Postgraduate Programme

Semester 2, 2010  
Professor D.E.Allen  
Joondalup Campus 2.355  
Tel 6304 5471  
Email d.allen@ecu.edu.au

## Aims and Objectives

This unit focuses on the foundations of finance. This involves a more advanced treatment of topics than in the undergraduate units. The objective of the course is to provide a deeper understanding of investment analysis, portfolio theory, and the pricing of risky assets. This includes share valuation and the pricing of derivative instruments such as options and futures. The emphasis is upon the use of the original papers. This should build an awareness of both the strengths and limitations of the models and methods used currently in this branch of financial economics. The controversies, schisms, and contradictions in viewpoints should be evident. Nevertheless the tremendous advances in the scope of financial economics and the close marriage between theory and empirical work should be apparent.

## Expectations of lecturers and students

This unit is conducted in accordance with the Student Charter (available at: <http://www.ecu.edu.au/prospectus/charter/>). Lecturers and students must all be mindful of common courtesies such as timely arrival to class, notification of absence, ensuring mobile phones are switched off, and allowing each person the opportunity to contribute and to gain as much as possible from the unit.

## Teaching and learning approach

Students are expected to read the original literature and to consider both the theory and related empirical work.

## Revision to the unit based on student feedback

This section should explain any major teaching strategies and should make explicit the roles of lecturers/tutors and students.

## Annotated reading list

### Recommended Course Texts:

Copeland, Weston and Shastri, *Financial Theory and Corporate Policy*, 4<sup>th</sup> Edition, Addison Wesley (2005)

T. Brailsford and R. Heaney, *Investments*, Harcourt, Brace and Company, (1998).

T.C. Mills, *The Econometric Modelling of Financial Time Series*, Second Edition, Cambridge University Press, (1999).

J.Y. Campbell, A.W. Lo, and A. C. MacKinlay, *The Econometrics of Financial Markets*, Princeton University Press, (1997).

Cuthbertson, *Quantitative Financial Economics*, Wiley, (1996).

J. H. Cochrane, *Asset Pricing*, Princeton University Press, (2001).

## Lecture References

### Lecture 1:

M.J. Brennan, "Corporate Finance over the past 25 years", *Financial Management*, (1995), Vol 24, No 2, pp.9-22.

C.W. Smith, "The Theory of Corporate Finance: a Historical Overview", Chapter in *The Modern Theory of Corporate Finance*, Ed. C.W. Smith McGraw-Hill, (1990), pp.3-24.

G. Foster, *Financial Statement Analysis*, Chapters 1 to 5.

R.G. Ibbotson and R.A. Sinquefeld, "Stocks, Bonds, Bills, and Inflation: Year by Year Historical returns (1926-1976)", *Journal of Business*, (1976) pp.11-45.

R.R. Officer, "Inflation, Rates of Return to Equities, Yields on Debt Securities and their inter-relationships", Working Paper, Department of Accounting and Finance, Monash University, (1983).

R. Ball and J. Bowers, "Shares, Bonds, Treasury Notes, Property Trusts and Inflation: Historical Returns and Risks, 1974-1985", Working Paper, Australian Graduate School of Management, (1986).

E. Dimson, P. Marsh and M. Staunton, "Long Run Global Capital Market Returns and Risk Premia" Available on SSRN, The full study was published as a book, 'Triumph of the Optimists: 101 Years of Global Investment Returns', Princeton University Press (2002)

J.C. Hull, *Options, Futures and other Derivative Securities*, Chapter 3.

E.F. Fama, *Foundations of Finance*, (1976), Chapter 1 "The Behaviour of Stock Market Returns".

J.F. Marshall and V.K. Bonsal, *Financial Engineering*, (1992) New York Institute of Finance, Chapter 5, "Measuring Return".

Lecture 2:

A.W. Kleidon, "Variance Bounds Tests and Stock Price Valuation Models", University of Stanford Working Paper, (1986).

A.W. Kleidon, "Bias in small sample tests of stock price rationality", *Journal of Business* (1986), pp.237-261.

R.J. Shiller, *Market Volatility*, Chapters 4 and 5.

D.E. Allen and W. Yang, "Variation Of Australian Share Prices Due To Fundamental And Non-fundamental Innovations", Working paper, SAFE.

B.S. Lee, "The Response of Stock Prices to Permanent and Temporary Shocks to Dividends", *Journal of Financial and Quantitative Analysis*, (March 1995), pp. 1-22.

Lecture 3:

T. Brailsford, "Stock Market Volatility: A Review Essay", *Accounting Research Journal*, (1994), pp. 43-63.

T. Bollerslev, R.Y. Chou and K.F. Kroner, "ARCH modeling in Finance", *Journal of Econometrics*, (1992), Volk 52, pp.5-59.

A. Pagan, "The Econometrics of Financial Markets", *Journal of Empirical Finance*, (1996), pp.15-102.

S.Peiris, D.Allen and W. Yang, "Some Statistical Models for Durations and their Applications in Finance", (2002) Working Paper, SAFE.

Lecture 4:

E.F. Fama, *Foundations of Finance*, Chapter 5, "Efficient Capital Markets".

E.F. Fama, "Efficient Capital Markets:II", *The Journal of Finance*, 46, No 5, (1991), pp.1575-1617.

D.B. Keim, "Size-related anomalies and stock return seasonality", *Journal of Financial Economics*, (1983),pp. 13-32.

L.H. Summers, "Does the stock market rationally reflect fundamental values?", *Journal of Finance*, (1986), pp. 591-601.

R. Roll, "Rational infinitely lived asset prices must be non-stationary", *Journal of Banking and Finance*, (2002), pp.1093-1097.

Lecture 5:

R.P. Beatty and J.R. Ritter, "Investment banking, reputation, and the underpricing of initial public offerings", *Journal of Financial Economics*, (1986), pp. 500-519.

K. Rock, "Why new issues are underpriced", *Journal of Financial Economics*, (1986), pp. 187-212.

M. Kim, and J. Ritter, "Valuing IPOs", *Journal of Financial Economics*, (1999), pp. 409-437.

J.R. Ritter, (2002) "Investment Banking and Securities Issuance", Chapter 9 Of *HandBook of the Economics of Finance*, North Holland, Ed. G. Constantinides, M. Harris, and R. Stulz.

Lecture 6:

R. Ball and P. Brown, "An empirical evaluation of accounting income numbers", *Journal of Accounting Research*, (1968) pp. 159-178.

P. Brown, "Ball and Brown (1968)", plenary address to AAANZ Conference, Melbourne, (1989).

R. Roll, "R2" *Journal of Finance*, (1988) pp. 541-566.

S. Penman, "Return to fundamentals", plenary address to AAANZ Conference, Brisbane (1991).

M.J. Brennan, "A perspective on accounting and stock prices", *The Accounting Review*, (1991) pp. 67-79.

#### Lecture 7:

E.F. Fama, "Efficient Capital Markets:II", *The Journal of Finance*, 46, No 5, (1991), pp.1575-1617.

E.F. Fama, *Foundations of Finance*, Basil Blackwell, Oxford (1976).

H. Markowitz, "Portfolio Selection", *Journal of Finance*, (1952), pp.77-91.

W.F. Sharpe, "Capital Asset Prices: A theory of Market Equilibrium Under Conditions of Risk", *Journal of Finance*, (1964), pp.425-442.

J. Lintner, "The Valuation of Risk Assets and the Selection of Risky Investments in Stock Portfolios and Capital Budgets", *The Review of Economics and Statistics*, (1965), pp.13-37.

E.Dimson and M. Mussavian, "Three Centuries of Asset Pricing", *Journal of Banking and Finance*, (1999), pp.1745-1769.

#### Lecture 8

R. Roll, "A Critique of the Asset Pricing Theory's Tests", *Journal of Financial Economics*, (1977), pp. 129-176.

R.C. Merton, "A Re-examination of the Capital Asset Pricing Model",

G.W. Schwert, "Size and Stock Returns and other empirical regularities", *Journal of Financial Economics*, (1983), pp.3-12

M.Miller, and M.Scholes, "Rates of Return in Relation to Risk: A Re-examination of some Recent Studies", in M.Jensen, ed., *Studies in the Theory of Capital Markets*, New York, Praeger, (1972).

E.F.Fama, and K.R.French, "The cross-section of expected stock returns", *Journal of Finance*, (1992), pp.427-465.

F. Black, "Beta and Return", *Journal of Portfolio Management*, (1993), pp.8-17.

J.Y. Campbell, "Asset Pricing at the Millenium", *The Journal of Finance*, (2000), pp.1515-1567.

#### Lecture 9:

J. Shanken, "The Arbitrage Pricing Theory: is it Testable?" *Journal of Finance*, (1982), pp. 445-456.

R.Roll, and S.Ross, "An Empirical Investigation of Arbitrage Pricing Theory", *Journal of Finance*, (1980), pp.1073-1103.

#### Lecture 10:

M. O'Hara, *Market Microstructure Theory*, Blackwell, Oxford, (1995).

M. Aitken, P.Brown, C. Buckland, T. Walter, "Price Clustering on the Australian Stock Exchange", Working Paper, Department of Accounting and Finance, The University of Western Australia (1995).

#### Lecture 11

Dufour, A. and R. Engle (2000), "Time and the Price Impact of a Trade", *Journal of Finance*, 55, 6, pp. 2467-2498.



- Engle, R. (1982), "Autoregressive Conditional Heteroscedasticity with Estimates of the Variance of United Kingdom Inflation", *Econometrica*, 50, pp.987-1007.
- Engle, R. (1986), "The Econometrics of High Frequency Data", UCSD Department of Economics Working Paper, 96-15.
- Engle, R. (2000), "The Econometrics of High Frequency Data", *Econometrica*, 68, pp.1-22.
- Engle, R, and A.J. Patton (2004), "Impacts of Trades in an error-correction model of quote prices", *Journal of Financial Markets*, 7, pp.1-25.
- Engle, R. and J.R. Russell (1998), "Autoregressive Conditional Duration: A new Model for Irregularly Spaced Transactions Data", *Econometrica*, 66, pp.1127-1162.

#### Lecture 12:

- F. Black and M. Scholes, "The Pricing of Options and Corporate Liabilities", *The Journal of Political Economy*, (1973), pp.637-654.
- D. Galai, 'A survey of Empirical tests of Option Pricing Models', chapter in *Option Pricing: Theory and Applications*, M. Brenner, ed., Lexington Books (1983), pp.45-80.

#### Lecture 13:

- E.F. Fama and K.R. French, "Commodity Futures Prices: some evidence ex-forecast power, premiums, and the theory of storage", *Journal of Business*, (1987), pp.55-73.
- L. Ederington, "The Hedging Performance of the New Futures Markets", *Journal of Finance*, (1979), pp.157-170.
- F. Black, "The Pricing of Commodity Contracts", *Journal of Financial Economics*, (1976), pp.167-179.
- W. Yang and D.E. Allen, "M-GARCH Hedge Ratios and Hedging Effectiveness in Australian Futures Markets", (2002) Working paper, SAFE.

## Other significant references and resources

Copies of relevant material will be placed on my personal website at: <http://www.dallenwpty.com/courses.htm>

## Unit Prizes

Provide students with a list of University approved prizes they are eligible for in this unit.

## Study Schedule (Sample 1 on-campus delivery)

Choose a study schedule (from Sample 1 or Sample 2) that is applicable to the unit and the mode of delivery. **At a minimum it must contain the week, topic covered and any assignment due or other assessment taking place in the particular week.** If tutorial exercises are provided with the unit plan, they should be included in an addendum and only the numbers of relevant exercises need to be listed in the schedule. Note that the mid-semester break will fall between different weeks in different semesters, so that row in the study schedule should be adjusted accordingly.

This schedule provides a guideline on the topics covered and activities required each week.

Week	Dates	Topic/s	Reading	Tutorial exercises	Assessment
1	30/7/12	Introduction	See page 5		
2	6/8/12	Variance Bounds Tests	See page 6		
3	13/8/12	ARCH/GARCH modelling	See page 6		
4	20/8/12	Efficient Capital Markets	See page 6		
5	27/8/12	Security Issues	See page 6		
6	3/9/12	Event Studies	See page 7		
7	10/9/12	CAPM	See page 7		
8	17/9/12	Asset Pricing Tests	See page 7		First Assignment Due
9	24/9/12	APT	See page 7		
	1/10/12		Mid-semester break		
10	8/10/12	Market Microstructure	See page 8		
11	15/10/12	ACD Models	See page 8		
12	22/10/12	Option pricing	See page 8		Second Assignment Due
13	29/10/12	Futures Markets	See page 8		

## Assessment information

The course will consist of lectures and discussions of assigned readings.  
 All assignments must be typed. (Length should not be greater than 15-20 A5 pages).  
 Marks will be deducted for work that is handed in late.

## Assessment details

Assessment	Date (due)	Marks/Weighting
Assignment 1	17/9/12	25%
Assignment 2	22/10/12	25%
Final Examination	To be announced	50%

## Assignment 1

The assignment will consist of a formal written essay on the designated topic: "What do we know about Market Efficiency?"

### Submission information

This section should outline the submission details and the format (including specific computer applications) to be used for the assignment.

Weighting	This assignment accounts for 25 % of the assessment in this unit.
Date/Week	17/9/12
Time	
Place	
Format	

### Learning outcome/s and Graduate Attributes

Completing this assignment will help you achieve the following learning outcome/s and ECU Graduate Attributes:

Ability to communicate and critical appraisal skills.

### Preparation

Before starting this assignment, you should have read the relevant material

## Assignment 2

The assignment will consist of a formal written essay on the designated topic: "What do we know about volatility modelling"

### Submission information

This section should outline the submission details and the format (including specific computer applications) to be used for the assignment.

Weighting	This assignment accounts for 25 % of the assessment in this unit.
Date/Week	22/10/1
Time	
Place	
Format	

### Learning outcome/s and Graduate Attributes

Completing this assignment will help you achieve the following learning outcome/s and ECU Graduate Attributes:

Ability to communicate and critical appraisal skills.

### Preparation

Before starting this assignment, you should have read the relevant material

## Addendum

### Email protocol

All emails should be sent from your student email account or via Blackboard, otherwise anti-spam filters may prevent it from being delivered to your lecturer.

When using email to communicate with lecturers or tutors, you should always make sure that your message contains the following:

1. A subject that contains the unit code, and clearly describes the nature of your query or request.  
Your lecturers receive many emails a day, and may also teach more than one unit, so if your email does not contain the unit code, it is not possible to place your message in context. If the subject does not indicate the nature of the message, it may well remain unanswered.
2. Change the default setting on your email program to include previous messages in replies, and make sure that previous messages are included in an ongoing exchange. Your lecturer deals with many students. Having a copy of the previous exchanges included in your message will expedite a response. You should still make sure that the subject indicates what the email is about.
3. Address your lecturer appropriately by name.

4. State your question or request clearly and concisely.
5. Insert a signature at the end of your email that contains:
  - a. your name in full as it appears in SIMO
  - b. your student number
  - c. the campus at which you attend classes for the unit in question  
(also indicate if you are an off campus student)

Your lecturer will inform you if there are additional requirements for communicating by email.

While lecturers cannot be available on line all day, in normal circumstance your lecturer will reply within 2 working days.

## Unit and Teaching Evaluation (UTEI)

At the end of the semester, all students will be requested to complete the ECU UTEI online survey. This survey will ask questions concerning your level of satisfaction with the unit, your lecturer and your tutor. Your feedback is needed to help us to improve the quality of our courses. We endeavour to use the feedback we receive from the UTEI survey to improve the quality of the unit when it is next run.

Towards the end of the semester you will receive an email notification about how to complete the UTEI survey. Please take the time to complete it for us. There are small incentives offered to encourage participation and your feedback is anonymous and confidential.

## UTEI dates for Semester 1 & 2, 2012

Semester 1,     3 weeks beginning 21<sup>st</sup> May  
Semester 2,     3 weeks beginning 22<sup>nd</sup> October

## Assignments

### Extensions for submission dates

Any student who wishes to defer the submission of an assignment must apply to the lecturer **before the due date** for an extension of the time within which to submit the assignment. The application must be in writing and **must set out the grounds on which deferral is sought**.

An assignment submitted **after the fixed or extended time** for submission shall incur a penalty to be calculated as follows:

- where the assignment is submitted not more than 5 working days late, the penalty shall, for each working day that it is late, be 5% of the maximum assessment available for the assignment;

## Exams

### Illness on the day of an exam

This happens very rarely. If you should find yourself in this unusual and difficult position you should not attend the exam as you could not perform to your best. However, if not attending you must see a doctor and submit the doctor's certificate with your request for a deferred exam on the grounds that you were ill at the time of exam.

### Failing a unit

Failing a unit 3 times may result in you being excluded from the unit, the major to which the unit belongs, or even the course. Clarification and further assistance can be obtained by contacting the Student Information Office, Joondalup campus – building 6 or Mt Lawley campus – building 10 or by email at [businessandlaw@ecu.edu.au](mailto:businessandlaw@ecu.edu.au).