

# ECON4437/8037

## Financial Economics

### Semester 2, 2018

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This course examines the economic principles that determine the allocation of resources through time in market economies. It uses supply and demand relationships to value capital assets (or projects more generally). There is a detailed treatment of the determinants of capital asset prices, and the Modigliani-Miller financial policy irrelevance theorems will be considered. The impact of modern contracting theory on our understanding of financial economics will also be discussed (time permitting).

This year's course includes a significant and ongoing innovation compared to previous years. There will be a significant computing component using the Python language and a shift away from some of the more technical aspects of financial economic theory. The course will still be quite technical but the emphasis will be towards the development of the ability to use financial economic ideas in a practical, numerical context.

<b>Mode of Delivery</b>	On campus
<b>Prerequisites</b>	Enrolment by permission of RSE
<b>Incompatible Courses</b>	ECON 3006 Financial Economics (P)
<b>Course Convener:</b>	Professor Kieron Meagher
Phone:	(02) 61259535
Email:	Kieron.meagher@anu.edu.au
Office hours for student consultation:	To be advised (see course website on Wattle).
Research Interests	Organizational economics, political economy and spatial economics.
Relevant administrator if any (optional)	Nicole Millar
Phone:	02 6125 0384
Email:	<a href="mailto:enquiries.rse@anu.edu.au">enquiries.rse@anu.edu.au</a>
<b>Tutor(s)</b>	Please check course website for details.

## COURSE OVERVIEW

### Learning Outcomes

Students who successfully complete this course should:

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1. Be familiar with the classical finance model that underpins modern finance;
2. Understand how securities are priced and affected by the institutional arrangements in securities markets;
3. Understand how security prices are determined in the Capital Asset Pricing Model, and the role played by the assumptions in the model;
4. Understand Modigliani and Miller (M-M) type financial policy irrelevance theorems as basis for understanding the factors that determine the debt-equity and dividend policy choices of firms.
5. Be able to use numerical computing (in particular Python) to analyse financial economics problems relating to the material covered in the course.
6. Understand how moving away from the assumptions of perfect capital markets (e.g. incomplete contracts, imperfect information, market power) can impact corporate financial decisions<sup>1</sup>.

### Assessment Summary

Assessment Task	Value	Due Date	Date for Return of Assessment
1. Tutorial problem sets.	10%	Multiple weeks as advised in class/Wattle.	We aim to have these assessments returned in approximately 2-3 teaching weeks after the assessment
2. Mid-semester exam	25% (0%)	Week 6, (provisional). To be advised in ANU midsession exam timetable.	
3. Project	20%	12 noon Monday of week 10. (8 October 2018)	
4.	45%(70%)	Final exam period	

The arrangements for the quiz depend on enrolments for this course. Any changes and details about the quiz will be posted on Wattle.

### Research-Led Teaching

This course is based on a new approach developed by Professor Meagher in consultation with industry.

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<sup>1</sup> The market imperfections covered will vary from year to year and reflect student and instructor interests.

## **Feedback**

### **Staff Feedback**

This course will run with an engaged classroom approach so the first form of feedback will be verbal and informal through classroom participation.

You will attempt the problem sets before the tutorials and submit your answers at the beginning of the tutorial. Reflecting on how your answers compare to discussion in the tutorial will inform you on your mastery of the material. You will also receive a 0-2 grade as detailed below.

The in mid-semester exam will give course level feedback on your understanding.

### **Student Feedback**

ANU is committed to the demonstration of educational excellence and regularly seeks feedback from students. One of the key formal ways students have to provide feedback is through Student Experience of Learning Support (SELS) surveys. The feedback given in these surveys is anonymous and provides the Colleges, University Education Committee and Academic Board with opportunities to recognise excellent teaching, and opportunities for improvement.

For more information on student surveys at ANU and reports on the feedback provided on ANU courses, go to

<http://unistats.anu.edu.au/surveys/selt/students/> and  
<http://unistats.anu.edu.au/surveys/selt/results/learning/>

## **Policies**

ANU has educational policies, procedures and guidelines, which are designed to ensure that staff and students are aware of the University's academic standards, and implement them. You can find the University's education policies and an explanatory glossary at: <http://policies.anu.edu.au/>

Students are expected to have read the [Academic Misconduct Rules 2014](#) before the commencement of their course.

Other key policies include:

- Student Assessment (Coursework)
- Student Surveys and Evaluations

### **Examination material or equipment (provisional)**

Simple calculators.

The binding details for the final exam will be given in the University's final exam timetable <http://timetable.anu.edu.au/exams/>

### **Recommended Resources**

The main textbook for this course is:

Fabozzi, F., E. Neave & G. Zhou, 2012, *Financial Economics*, Wiley.

The recommended, free, reference for Python is Kevin Sheppard's notes:

[https://www.kevinsheppard.com/images/b/b3/Python\\_introduction-2016.pdf](https://www.kevinsheppard.com/images/b/b3/Python_introduction-2016.pdf)

## COURSE SCHEDULE

This course typically consists of following weekly activities: 2 hours of lectures, 1 hour tutorial.

Week/ Session	Summary of Activities	Assessment this week
1	2 lectures	None
2	2 lectures, 1 tutorial	Tutorial problem set
3	2 lectures, 1 tutorial	Tutorial problem set
4	2 lectures, 1 tutorial	Tutorial problem set
5	2 lectures, 1 tutorial	Tutorial problem set
6	2 lectures, 1 tutorial	Mid-semester exam (provisional). See ANU mid-semester exam timetable.
7	2 lectures, 1 tutorial	Tutorial problem set
8	2 lectures, 1 tutorial	Tutorial problem set
9	2 lectures, 1 tutorial	Tutorial problem set
10	2 lectures, 1 tutorial	Tutorial problem set, assignment due.
11	2 lectures, 1 tutorial	None
12	2 lectures, 1 tutorial	None
	Examination period	

## ASSESSMENT REQUIREMENTS

The ANU is using Turnitin to enhance student citation and referencing techniques, and to assess assignment submissions as a component of the University's approach to managing Academic Integrity. For additional information regarding Turnitin please visit the [ANU Online](#) website.

Students may choose not to submit assessment items through Turnitin. In this instance, you will be required to submit, alongside the assessment item itself, copies of all references included in the assessment item.

**As a further academic integrity control, students may be selected for a 15 minute individual oral examination of their written assessment submissions.**

**Any student identified, either during the current semester or in retrospect, as having used ghost writing services will be investigated under the University's Academic Misconduct Rule.**

## Assessment Tasks

### Assessment Task 1: Tutorial problem sets

**Details of task:** Submit your answers/solutions for the appropriate week, as a pdf, before the first tutorial of that week using Turnitin (details on Wattle). There will be no deferred

examination for this item. Grading will be 0 = unsatisfactory, 2 = satisfactory attempt at all problems, 1 = unsatisfactory or incomplete.

**Value: 10%.** *The worst 2 marks awarded for the tutorial problem sets will be dropped in calculating the average (which determines the mark for this item). If a valid medical certificate or similar excuse is provided for any missed tutorial problem set(s) the assessment weight for the missed item will be transferred to the remaining tutorial problem sets.*

**Estimated return date:** Approximately 2 weeks after the *tutorial problem sets*.

### **Assessment Task 2: Mid-semester exam.**

**Details of task:** The mid-semester exam is optional, although strongly recommended, and redeemable. All material covered prior to the exam is potentially examinable. Time, location etc. will reflect central examinations section requirements. There will be no deferred examination for this exam.

Simple calculators are recommended.

**Value: 25% (0%)**

**Estimated return date:** Approximately 2 teaching weeks after the exam

### **Assessment Task 3: Project (a form of assignment)**

**Details of task:** You will be assigned a project on which to write a report/paper of approximately 2000 words.

**Assessment Rubric:** 10% language and grammar; 40% formal explanation of main contribution of the paper; 25% economic intuition for main result, 25% evaluation of strengths and weaknesses.

**Value: 20%.**

**Presentation requirements:** A typed, A4, 12pt Times New Roman font version of your assignment should be submitted in soft copy through Turnitin in accordance with the university *assignment submission* policies described below.

**Estimated return date:** Approximately 2-3 weeks after submission.

### **Assessment Task 4: Final exam.**

**Details of task:** The final exam will cover material presented throughout the semester and will be held during the university examination period.

**Value: 45% (65%)**

**The course mark percentages above in parentheses apply to those who do not sit the mid-semester exam as well as to those whose course mark would be higher if the redeemable mid-semester exam mark is set aside.**

### **Examination(s)**

The final exam will cover material presented throughout the semester and will be held during the university examination period.

### **Assignment submission**

**Online Submission:** Tutorial problem sets/assignments are submitted using Turnitin in the course Wattle site. You will be required to electronically sign a declaration as part of the submission of your assignment. Please keep a copy of the assignment for your records.

### **Extensions and penalties**

## **Extensions and late submission of assessment pieces are covered by the Student Assessment (Coursework) Policy and Procedure.**

The Course Convener may grant extensions for assessment pieces that are not examinations or take-home examinations. If you need an extension, you must request it in writing on or before the due date. If you have documented and appropriate medical evidence that demonstrates you were not able to request an extension on or before the due date, you may be able to request it after the due date.

No submission of assessment tasks without an extension after the due date will be permitted. If an assessment task is not submitted by the due date, a mark of 0 will be awarded.

Late submission is not accepted for take-home examinations.

### **Returning assessment items**

Your submitted assessment items during the semester will be returned in class. Alternative arrangements may be possible.

### **Resubmission of assignments**

Resubmission of answers to tutorial problem sets is not permitted.

### **Referencing requirements**

No specific referencing style is required.

### **Tentative Topics Schedule**

Please note this schedule is a draft and subject to changes. Any changes will be announced in lectures and posted on Wattle.

<b>Topic</b>	<b>Chapter of Text Books*</b>
Finance in a Certain World with Perfect Capital Markets	Fabozzi et al, 1-6.
Risk	Fabozzi et al, 9-12
Selecting and Pricing Risky Assets (and projects more generally)	Fabozzi et al, 13-14, 25-26.
Computational methods for manipulating data and exploring models.	Sheppard, 1-19 (we will only be doing selections focusing on Pandas, graphing and basic simulation).

\* Not all material in each chapter will be covered. Additional references may also be given.

### **Scaling**

Your final mark for the course will be based on the **raw** marks allocated for each of your assessment items. However, your final mark may not be the same number as produced by that formula, as marks may be **scaled**. Any scaling applied will preserve the rank order of raw marks (i.e. if your raw mark exceeds that of another student, then your scaled mark will exceed the scaled mark of that student), and may be either up or down.

### **Privacy Notice**

The ANU has made a number of third party, online, databases available for students to use. Use of each online database is conditional on student end users first agreeing to the database licensor's terms of service and/or privacy policy. Students should read these carefully.

In some cases student end users will be required to register an account with the database licensor and submit personal information, including their: first name; last name; ANU email address; and other information.

In cases where student end users are asked to submit 'content' to a database, such as an assignment or short answers, the database licensor may only use the student's 'content' in accordance with the terms of service – including any (copyright) licence the student grants to the database licensor.

Any personal information or content a student submits may be stored by the licensor, potentially offshore, and will be used to process the database service in accordance with the licensors terms of service and/or privacy policy.

If any student chooses not to agree to the database licensor's terms of service or privacy policy, the student will not be able to access and use the database. In these circumstances students should contact their lecturer to enquire about alternative arrangements that are available.

### **Tutorial Seminar Registration**

This is a typically a small class so we will probably only have one tutorial. If we end up with a larger enrolment and multiple tutorials then tutorial signup for this course will be done via the Wattle website. Detailed information about signup times will be provided on Wattle or during your lectures. When tutorials are available for enrolment, follow these steps:

1. Log on to Wattle, and go to the course site
2. Click on the link "Tutorial enrolment"
3. On the right of the screen, click on the tab "Become Member of....." for the tutorial class you wish to enter
4. Confirm your choice

If you need to change your enrolment, you will be able to do so by clicking on the tab "Leave group...." and then re-enrol in another group. You will not be able to enrol in groups that have reached their maximum number. Please note that enrolment in ISIS must be finalised for you to have access to Wattle.

### **SUPPORT FOR STUDENTS**

The University offers a number of support services for students. Information on these is available online from <http://students.anu.edu.au/studentlife/>

### **Other Information**

Building Access Hours

Both CBE and HW ARNDT are:

TEACHING PERIOD = Mon – Fri 07.45 to 21.15 and SAT, SUN and Public Holidays is not accessible by students.

Both CBE and HW ARNDT are:

NON TEACHING PERIOD = Mon – Fri 08.00 to 18.00 and SAT, SUN and Public Holidays is not accessible by students.

RSE has a Frequently Asked Questions page where you can find relevant policies and information on a broad range of topics, the onus is on the student to familiarise themselves with this page and the information available.

<https://www.rse.anu.edu.au/students/students/frequently-asked-questions/>