

MACQUARIE
UNIVERSITY



FACULTY OF
BUSINESS AND ECONOMICS

ACCG805

Research Methodology in Finance

Semester 1, 2010

Department of Accounting and Finance

Macquarie University
Faculty of Business and Economics
Unit Outline: ACCG805 Research Methodology in Finance

Year and Semester: 2010, Semester 1

Unit convenor: Dr Geoffrey Loudon

Prerequisites: There are no formal prerequisites. However, this is an advanced unit of study and it is assumed that students have successfully completed at least one prior unit in finance. Students should be strongly committed to undertake research in finance. They should possess high level skills in logic and reasoning, critical thinking and quantitative analysis.

Students in this unit should read this unit outline carefully at the start of semester. It contains important information about the unit. If anything in it is unclear, please consult one of the teaching staff in the unit.

About this unit

Unit description: This unit introduces students to the methodology of research in finance. It examines both theoretical and empirical research design issues within the context of understanding how securities are priced in financial markets.

Credit Points: 4

Unit rationale: The rationale of this unit is to prepare students for producing high quality research in finance. It helps them to develop a research proposal that is well motivated, properly designed and feasible to implement. Skills and knowledge acquired in this unit will also assist students engaging in capital markets research in accounting.

Teaching staff

Convenor: Associate Professor Geoffrey Loudon
Room: E4A 230
Tel: 9850 8536
Email: gloudon@efs.mq.edu.au

Consultation hours are on Friday 2-3pm during teaching weeks. Other times are available, but by prior arrangement only.

Classes

Classes comprise a weekly, three-hour seminar. Students are expected to attend all classes, both for learning and assessment purposes.

The timetable for classes can be found on the University web site at <http://www.timetables.mq.edu.au/>

Required and recommended texts and/or materials

There is no prescribed textbook. Readings are taken from relevant academic books and journals. Compulsory readings can be downloaded from the unit web site.

Unit web page

The web page for this unit can be found at <http://learn.mq.edu.au>

Students should consult the web page frequently. Learning, teaching and other reference materials will be posted to this site throughout the semester.

Learning objectives and outcomes

The learning objectives of this unit are to provide students with some of those skills and techniques which are required to:

1. identify strengths and weaknesses in existing research in finance;
2. replicate and extend prior studies;
3. potentially contribute to the extant literature by planning their own, original research study.

The learning outcomes of this unit are an increased ability of students to:

1. understand the nature of research;
2. critically evaluate research in finance;
3. conduct a small research project as part of a team of researchers;
4. develop a successful research proposal.

In addition to the discipline-based learning objectives, all academic programs at Macquarie seek to develop students' generic skills in a range of areas. One of the aims of this unit is that students develop their skills in the following: Foundation skills of literacy, numeracy and information technology; Self-awareness and interpersonal skills; Communication skills; Critical analysis skills; Problem-solving skills; Creative thinking skills.

Teaching and Learning Strategy

This unit is taught in a seminar style. Each session runs for three hours including breaks and consists of a variety of interactive learning activities.

Since I believe that empirical research in finance is best learned by doing, this unit is taught interactively using an informal, "hands on" approach. You will get the most out of the unit by acquiring first hand familiarity with how prices in financial markets behave and how they are modeled. We therefore carefully work through research papers as well as accessing and analysing data. As research is a cooperative effort embracing shared knowledge and skills, you are not only permitted, but are actively encouraged to work together with your fellow students, except where expressly directed otherwise.

Students must thoroughly read all assigned articles before coming to the class so that they are fully prepared to discuss the key issues. Students who do not voluntarily participate in class discussion should expect to be prompted by the instructor to contribute.

The list of topics to be covered is:

Week Topic

1. Conducting research in finance: theoretical aspects
2. Conducting research in finance: practical aspects
3. Empirical research methods in finance: part 1
4. Empirical research methods in finance: part 2
5. The equity risk premium
6. The cross section of returns
7. Research proposal presentations: initial
8. Return predictability
9. Option pricing
10. Behavioural finance
11. Corporate finance
12. Risk management
13. Research proposal presentations: final

Relationship between assessment and learning outcomes

Assessment tasks and percentage weighting

Class quiz	10%
Research presentations	20%
Research project	30%
Research proposal	40%

Absence from class presentations, or late submission of assessable tasks, will not be accepted, except where adequate documentary evidence of illness or unavoidable disruption is provided. In such cases you need to advise the convenor as soon as possible.

There is no final examination for this unit.

Class quiz

The class quiz is an early, low risk diagnostic task designed to provide feedback for students and the unit convenor to address likely learning challenges. It will test students engagement with the unit material and provide them with some useful guidance as to their capacity to achieve the learning outcomes for the unit.

The quiz will be **held during the class in week 4** and based on the topics covered in the first three weeks. Responses to the quiz will be discussed in class and individual scores notified to students during the following week.

Research presentations

An important aspect of research is to communicate findings by oral presentations. During the unit, students are required to present critiques of the *methodological contribution* of research papers selected by the convenor. Such presentations provide invaluable practice at this skill in a friendly and supportive atmosphere. Class presentations assist students to develop their communication skills in the context of the unit material. They also enable peer feedback and foster self-awareness.

The actual number of research presentations per student depends on the final class size. Where multiple presentations are made, the highest score will count for assessment purposes. A grading sheet providing feedback will be returned to students in the week following their presentation.

Guidelines for the presenter

In your presentation, you should address the following issues:

1. Describe the key aspects of the method proposed in the paper. Emphasise the major points of difference between the methods used in the paper from those used in the prior literature.
2. Explain the motivation for the methodological innovations in the paper. [You should demonstrate why the authors deemed it was necessary to modify existing methods

and why they chose to follow the particular approach presented in the paper].

3. Evaluate the methodological contribution of the paper by assessing the strengths and weaknesses of the methods adopted.
4. Suggest and justify any further methodological refinements you think are necessary and/or desirable.

Each of the above components are equally weighted for assessment purposes. You should therefore devote a near equivalent amount of time and effort to each part.

Use overheads or other visual aids to highlight your key points. Allow sufficient time to answer any questions from your listeners or to reiterate important issues.

Guidelines for the audience

Be supportive of your fellow student — remember, your turn will come! Most importantly, you must also have carefully read the paper beforehand and be prepared to ask or answer questions about it, from either the presenter or the convenor.

Research project

The research project requires students conduct a short research project in a small group. This develops their critical analysis and problem-solving skills in relation to empirical research in finance. Group work encourages collaboration, co-operation and communication among students. This facilitates authentic, contextual development of self-awareness and interpersonal skills; communication skills.

The project requirements are:

- Find another member of the class with whom you will conduct some joint research.
- Your task is to select and replicate the major finding of a recent published empirical paper in finance. Your replication should involve the use of a different data set and/or the application of a different method from that employed in the original paper. In choosing a paper to replicate, check that the necessary data is readily accessible by you.
- To ensure that your project is sufficiently substantive and feasible, your choice of paper must be approved by the convenor before you commence the project. You should therefore provide the convenor with a copy of the paper to be replicated **no later than the class in week 5**.
- Assessment will be based on a written report of the project. This paper should follow the standard format of articles published in academic finance journals. Your paper should not exceed 15 pages, double spaced.
- Your written report must include a statement, signed by all members, that sets out the percentage contribution of each member. The same mark will apply to all group members as it is expected that groups will allocate tasks so that each member makes a similar level of contribution. However, marks may be adjusted where unequal contributions can be proved from individual log-books or other identifiable evidence.

- A soft copy of the paper plus all of the data used in the analysis is to be submitted by email to the convenor **no later than the day of the class in week 11**.

Research proposal

The purpose of the research proposal is to persuade someone else, e.g. a potential thesis supervisor, a research funding body, the unit convenor etc, that you have identified a project that is both interesting and important. The proposal should also demonstrate that you are able to obtain the necessary data and adequately complete the project within the available time frame.

Your proposal should have the following structure:

1. Summary of the expected project outcomes in not more than 100 words in a form suitable for publicity purposes, and understandable to the intelligent layperson.
2. Description of the aims and significance of the research.
3. Brief literature review showing how your proposed research relates to existing knowledge.
4. Derivation and statement of the hypotheses to be tested, in null and alternate form.
5. Description of the research methods to be adopted.
6. Specification of the data to be analysed and likely sources.
7. Limitations of the study.
8. Bibliography.

You are required to submit an *initial version* of the research proposal at the **class in week 7**. You are also required to submit the *final version* of the research proposal **no later than 5pm on the Monday immediately following the last class**. Both these written submissions must not exceed 12 double-spaced pages. Make sure you use page numbering. Assessment will be based entirely on the final written submission.

To help you develop your research proposals, you **present them in class during weeks 7 and 13**. These presentations are not graded, however, feedback from them potentially adds value to the final submission.

Students are strongly advised to obtain input on their research proposal from their honours mentor and/or other appropriate academic staff throughout the semester.

Plagiarism

The University defines plagiarism in its rules: "Plagiarism involves using the work of another person and presenting it as one's own." Plagiarism is a serious breach of the University's

rules and carries significant penalties. You must read the University's practices and procedures on plagiarism. These can be found in the *Handbook of Postgraduate Studies* or on the web at

<http://www.student.mq.edu.au/plagiarism/>

The policies and procedures explain what plagiarism is, how to avoid it, the procedures that will be taken in cases of suspected plagiarism, and the penalties if you are found guilty. Penalties may include a deduction of marks, failure in the unit, and/or referral to the University Discipline Committee.

Student support services

Macquarie University provides a range of Academic Student Support Services. Details of these services can be accessed at

<http://www.student.mq.edu.au>

For faculty specific support, contact BESS - (Faculty of) Business and Economics Student Services in Room 106, Building E4B, or,

<http://www.businessandconomics.mq.edu.au/current/undergraduate/bess>