

MACQUARIE
UNIVERSITY



FACULTY OF
BUSINESS AND ECONOMICS

ACST255/859
Contingent Payments 1

Semester 2, 2010

Department of Actuarial Studies

**MACQUARIE UNIVERSITY
FACULTY OF BUSINESS AND ECONOMICS
UNIT OUTLINE**

Year and Semester: 2010 Semester 2

Unit convenor: Dr. Xian Zhou

**Prerequisites: ACST151(P); ACST202/851(P); STAT 272(P) or equivalent
Co-requisites: None**

Credit points: 3

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 covers the analysis of cash flows dependent on uncertain events. Single decrement survival models will be used to analyse the present value of payments under life insurance and annuity contracts. The concepts of pricing and reserving for future contingent liabilities are considered. A comprehensive understanding of the compound interest and statistical concepts contained in the pre-requisites is assumed. You should review these units as soon as possible if necessary.
- Unit rationale: This unit is a core unit of the degree program for actuarial studies. It covers a part the professional subject CT5. It is a prerequisite to units ACST355/860 Contingent Payments 2 and ACST358 Survival Models.

TEACHING STAFF

- Convenor: Xian Zhou, Room E4A 607, Ex 8566 xian.zhou@mq.edu.au
- Deputy Convenor: David Pitt, Room E4A 609, Ex 8455 david.pitt@mq.edu.au
- Tutors: Voon Chung Lee voonchung.lee@students.mq.edu.au
Shir Lynn Ong shirlynn.ong@students.mq.edu.au
Sijin (Vincent) Ou sijin.ou@students.mq.edu.au
Owen Tong owen.tong@students.mq.edu.au
- Teaching Assistant: Owen Tong owen.tong@students.mq.edu.au

CONSULTATION TIMES

- Xian Zhou: Tuesdays 2–4 pm
- David Pitt: Wednesdays 2–4 pm

All teaching staff can be contacted by email. You are encouraged to seek help at a time that is convenient to you from a staff member teaching on this unit during their regular consultation hours. In special circumstances, an appointment may be made outside regular consultation hours. Staff will not conduct any consultations by email. You may, however, phone staff during their consultation hours.

In order to gain access to staff located at levels 1, 2 and 3 of building E4A during their consultation hours please ring the staff member from the phones available in the lobby (phone numbers of relevant staff members will be provided on Blackboard and are available next to the phones).

Students experiencing significant difficulties with any topic in the unit must seek assistance immediately.

CLASSES

Lectures are held on

Mondays 1:00pm to 2:00pm in W5A PRICE

Tuesdays 9:00am to 11:00am in C5C T2

Lecturers: Xian Zhou (Weeks 1 – 11) and David Pitt (Weeks 12 – 13)

The lectures will NOT be recorded using i-lecture.

Tutorials are held on

Wednesdays 9:00am in C5A 310

Tutor: David Pitt

Wednesdays 10:00am in X5B 039

Tutor: Owen Tong

Thursdays 11:00am in E6A 131

Tutor: Sijin (Vincent) Ou

Thursdays 11:00am in C5A 226

Tutor: Shir Lynn Ong

Thursdays 12:00pm in E6A 108

Tutor: Voon Chung Lee

Tutorials start in Week 1.

Tutorial exercises will be available from the unit web site each week.

Tutorial exercises will not be assessed, but they form a very important part of the study and are closely related to the assessed components (assignments, class test and the final examination).

Tutorials are an opportunity for you to work on the week's tutorial questions and to obtain help with them as needed. The more preparation you do for the tutorial, the more you will benefit from the session.

Any alterations to the tutorial times, locations or enrolments will be advised in lectures and/or on the unit webpage.

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

Required texts: Lecture Notes will be posted on the unit website.

Reading materials:

- ActEd CT5 notes (2010 edition) Chapters 1 to 7 inclusive. This will also be used as background reading for ACST355/860. The ActEd CT5 notes can be purchased through ASSOC. More information about ASSOC can be found at its website <http://www.mqassoc.org>
- *Actuarial Mathematics for Life Contingent Risks*, D. M. Dickson, M. R. Hardy and H.R. Waters, Cambridge University Press (ISBN: 978-0-521-11825-5). Copies of this book will be made available at Library reserve.

UNIT WEB PAGE

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

The website will be used extensively for this unit so please consult the web page frequently. You will find administrative updates, lecture notes, tutorials and assignments posted there. Materials posted on the website may be updated from time to time.

It is your responsibility to check the website regularly to make sure that you are up-to-date with the information for the unit.

LEARNING OUTCOMES

The learning outcomes of this unit are:

1. Understand simple survival models
2. Master the skills to calculate the expected present values and the variances of benefits in standard life assurance and annuity contracts
3. Understand the concepts and applications of select and ultimate mortalities in life insurance
4. Understand and be familiar with the calculations of net premiums and reserves under various life insurance contracts
5. Understand and be able to calculate prospective and retrospective policy values under variable benefits and with-profit life insurance policies
6. Understand the costs and profits of life insurance business and be able to calculate gross premiums and reserves

GRADUATE CAPABILITIES

In addition to the discipline-based learning objectives, all academic programs at Macquarie seek to develop the capabilities the University's graduates will need to develop to address the challenges, and to be effective, engaged participants in their world.

This unit contributes to this by developing the following graduate capabilities:

1. Discipline Specific Knowledge and Skills:
 - (a) Have an appreciation of the time value of money.
 - (b) Be an expert in compound interest theory, in both discrete and continuous scenarios.
 - (c) Have a deep intuitive understanding of the meaning of probability and the methods of manipulating probabilities.
 - (d) Understand the use of Expected Present Value as a key concept in many actuarial applications.
2. Critical, Analytical and Integrative Thinking
3. Problem Solving
4. Effective Communication
5. Engaged and Ethical Local and Global citizens
6. Socially and Environmentally Active and Responsible
7. Capable of Professional and Personal Judgement and Initiative
8. Commitment to Continuous Learning

TEACHING AND LEARNING STRATEGY

- This unit is taught through 3 hours of lectures and 1 hour of tutorials per week. Lectures will cover the topics and materials in accordance with the syllabus for Institute of Actuaries (IA) subject CT5 Chapters 1-7. Tutorials will discuss exercise questions covered by the lectures.
- Students are expected to listen carefully to all lectures and tutorials; participate in discussions during tutorials, read relevant materials in advance; review the knowledge learnt in classes; and complete all assignments independently.
- A planned week-by-week list of the topics is as follows:

Week	Topics covered
1	Review of probability; Expected present value; Introduction to survival models
2	Life assurance contracts
3	Life annuity contracts
4	The Life table; Select mortality
5	Evaluation of life insurance contracts;
6	Net premiums and reserves
7	Policies with variable benefits
BREAK	
8	With-profit policies
9	With-profit policies; Class test
10	Expenses of life insurance; Gross premiums
11	Gross premiums and reserves
12	Profit and loss in life insurance
13	Revision

This is only a tentative schedule, and may be revised from time to time as the semester proceeds. Alterations will be advised in lectures and/or via the website.

RELATIONSHIP BETWEEN ASSESSMENT AND LEARNING OUTCOMES

Assessment Tasks	Task 1	Task 2	Task 3
Title/Name	Assignment 1; Assignment 2	Class Test	Final Examination
Description	Each assignment consists of five detailed questions involving concepts, methods and calculations	1 hour 45 minutes; including multiple choice and detailed questions	3 hours plus 10 minutes reading; including multiple choice and detailed questions
Due date	14/09/2010; 25/10/2010	12/10/2010	To be arranged by central time tabling
Weighting	10%	20%	70%
Grading method - marking criteria/ standards - expectations in relation to presentation	Based on level of understanding and problem solving skills; full solutions are expected for detailed questions	Based on level of understanding and problem solving skills; full solutions are expected for detailed questions	Based on level of understanding and problem solving skills; full solutions are expected for detailed questions
Submission method	Hard copy	Answer book	Answer book
Feedback	Through marked scripts, class discussions and /or consultations within 3 semester weeks after the due date	Through marked scripts, class discussions and /or consultations within 3 semester weeks after the due date	No feedback will be provided on the final examination in line with university policies
Estimated student workload (hours)	6 – 12 hours	4 – 8 hours	10 – 20 hours
Learning outcomes assessed			
1	√	√	√
2	√	√	√
3	√	√	√
4	√	√	√
5	√	√	√
6			√
Graduate capabilities assessed			
1(a)	√	√	√
1(b)	√	√	√
1(c)			
1(d)	√	√	√
2	√	√	√
3	√	√	√
4	√	√	√
5			
6			
7			
8			

Late submission: Late submission of assignments will not be accepted.

Early diagnostic task: A multiple-choice diagnostic quiz will be posted on the unit website on Thursday, 26 August. The answers are due Friday 4:00pm, 27 August. It will not be used for assessment. The purpose of the quiz is to identify students at risk. Students identified as at risk will be provided with additional consultations and/or tutoring by appointment.

Examinations: A final examination is included as an assessment task for this unit to provide assurance that:

- i) the product belongs to the student and
- ii) the student has attained the knowledge and skills tested in the exam.

A 3-hour final examination for this unit will be held during the University Examination period.

The University Examination period in the Second Half Year 2010 is from 17 November to 3 December.

You are expected to present yourself for examination at the time and place designated in the University Examination Timetable. The timetable will be available in Draft form approximately eight weeks before the commencement of the examinations and in Final form approximately four weeks before the commencement of the examinations.

<http://www.timetables.mq.edu.au/exam>

The only exception to not sitting an examination at the designated time is because of documented illness or unavoidable disruption. In these circumstances you may wish to consider applying for Special Consideration. The University's policy on special consideration process is available at

http://www.mq.edu.au/policy/docs/special_consideration/policy.html

If a Supplementary Examination is granted as a result of the Special Consideration process the examination will be scheduled after the conclusion of the official examination period. (Individual Faculties may wish to signal when the Faculties' Supplementary Exams are normally scheduled.)

The Macquarie university examination policy details the principles and conduct of examinations at the University. The policy is available at: <http://www.mq.edu.au/policy/docs/examination/policy.htm>

ACADEMIC HONESTY

The nature of scholarly endeavour, dependent as it is on the work of others, binds all members of the University community to abide by the principles of academic honesty. Its fundamental principle is that all staff and students act with integrity in the creation, development, application and use of ideas and information. This means that:

- all academic work claimed as original is the work of the author making the claim
- all academic collaborations are acknowledged
- academic work is not falsified in any way
- when the ideas of others are used, these ideas are acknowledged appropriately.

Further information on the academic honesty can be found in the Macquarie University Academic Honesty Policy at http://www.mq.edu.au/policy/docs/academic_honesty/policy.html

GRADES

Please refer to relevant Bachelor Degree rule in the Handbook of Undergraduate Studies.

GRADING APPEALS AND FINAL EXAMINATION SCRIPT VIEWING

If, at the conclusion of the unit, you have performed below expectations, and are considering lodging an appeal of grade and/or viewing your final exam script please refer to the following website which provides information about these processes and the cut off dates in the first instance. Please read the instructions provided concerning what constitutes a valid grounds for appeal before appealing your grade at:

http://www.businessandconomics.mq.edu.au/for/new_and_current_students/undergraduate/admin_central/grade_appeals

SPECIAL CONSIDERATION

The University is committed to equity and fairness in all aspects of its learning and teaching. In stating this commitment, the University recognises that there may be circumstances where a student is prevented by unavoidable disruption from performing in accordance with their ability. A special consideration policy exists to support students who experience serious and unavoidable disruption such that they do not reach their usual demonstrated performance level. The policy and procedure are available at:

http://www.mq.edu.au/policy/docs/special_consideration/policy.html

http://www.mq.edu.au/policy/docs/special_consideration/procedure.html

By submitting a request for special consideration you are agreeing to be available to sit a Supplementary Examination if required. If a Supplementary Examination is granted as a result of the Special Consideration process then

- The examination will be scheduled after the conclusion of the official examination period.
- You do not have the right to request an alternative time, unless the scheduled time clashes with another Macquarie University supplementary exam that you are required to attend.
- Your performance in the Supplementary Examination replaces your performance in the original examination (if any). You do not have the right to subsequently request that your result be based on the original examination rather than the Supplementary Examination.
- If you fail to attend the Supplementary Examination you will be awarded the grade of “Fail – Absent”.

Note further that:

- A Supplementary Examination may be granted only if the application for special consideration meets all criteria set by the policy for special consideration (refer to http://www.mq.edu.au/policy/docs/special_consideration/policy.html), including satisfactory performance in the coursework components of the unit and meeting the deadlines of the application process.
- The ground for special consideration does not provide special treatment on marking and grading. Your grade cannot be raised on the ground for special consideration without demonstration of satisfactory performance in a Supplementary Examination.
- For fairness to all students, Supplementary Examinations are carefully designed such that sitting a Supplementary Examination has no advantage over regular examination.
- Knowledge of the regular examination is unlikely to help raising the performance in a Supplementary Examination (if granted).
- A student who failed a regular examination due to lack of understanding to the course contents has very little prospect of making sufficient improvement by sitting a Supplementary Examination.

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>.

BESS: Business and Economics Student Services (BESS) is located in room E4B106 and offers photocopying facilities, reading areas and reference material. Class tests will be returned to BESS. Information about facilities and services is at http://businessandeconomics.mq.edu.au/for/new_and_current_students/undergraduate/bess

Consultation room: Consultation sessions with tutors will be held in the FBE Consultation Room E4B 104 at the times outlined previously under Consultation Times. David Pitt will conduct consultations in his office.

ACSTINFO: This ACSTINFO site is used to distribute information to all students majoring in actuarial studies. The information supplied may include administrative information and job advertisements. You will retain access to this site during the vacation following the end of this semester. It is to your advantage to ensure you read information on this web site regularly. You should not assume that information posted there will also be repeated in lectures. To access the site, login at: <http://learn.mq.edu.au> and the site should appear among your list of units. When you first login, please read the section labelled “How to use this site.” This contains useful information which will help you determine when there is new information on the site which you should read.

IT CONDITIONS OF USE

Access to all student computing facilities within the Faculty of Business and Economics is restricted to authorised coursework for approved units. Student ID cards must be displayed in the locations provided at all times.

Students are expected to act responsibly when utilising University IT facilities. The following regulations apply to the use of computing facilities and online services:

- Accessing inappropriate web sites or downloading inappropriate material is not permitted. Material that is not related to coursework for an approved unit is deemed inappropriate.
- Downloading copyright material without permission from the copyright owner is illegal, and strictly prohibited. Students detected undertaking such activities will face disciplinary action, which may result in criminal proceedings.

Non-compliance with these conditions may result in disciplinary action without further notice.

Students must use their Macquarie University email addresses to communicate with staff as it is University policy that the University issued email account is used for official University communication.

EXEMPTIONS

The units ACST255/859 and ACST355/860 together correspond to the professional subject CT5. The exemption will be recommended if and only if a standardised numerical grade (SNG) of at least 60 is achieved in both units and the average SNG is at least 65.

INSTITUTE OF ACTUARIES OF AUSTRALIA

The Institute of Actuaries of Australia (IAAust) has recently launched a new free offer for students to become IAAust University Subscribers. Full time undergraduates studying at an Institute accredited university who are members of a university student actuarial society are eligible. To sign up, go to

<http://www.actuaries.asn.au/Membership/MembershipoftheInstitute/Subscriber.aspx>

The University Subscriber offer is not a membership of the IAAust but a subscription to receive information on career opportunities, invitations to selected IAAust events and online publications. You might also consider joining the IAAust – there are advantages in doing so while a full-time student. For membership information, go to

<http://www.actuaries.asn.au/Membership/MembershipoftheInstitute.aspx>

RULES REGARDING TESTS AND EXAMINATIONS

You should ensure that your handwriting in the class tests and in the final examination is legible. Sections of work that are not legible will not be marked.

CLASS ETIQUETTE

Mobile phones should be switched off during all lectures and tutorials. If there is a reason for you to keep your phone on you should request to be allowed to do so before the start of the class. Lectures commence at 5 minutes past the hour and you are expected to be punctual. You are expected to keep talking to a minimum during classes so as not to disrupt your fellow students (and the lecturer!).