

MACQUARIE
UNIVERSITY



FACULTY OF
BUSINESS AND ECONOMICS

Unit code: Accg 837

Unit Name: Capital Markets

Semester One

Year 2011

Department of Applied Finance and Actuarial Studies

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

Year and Semester: 2011 Semester 1

Unit Coordinator: Siang Chang

Prerequisites:

- **Basic knowledge of financial mathematics**
- **ACST603 or admission to MCom or MIB or MEd or MActPrac prior to 2011**

Credit points: 4 Credit Points

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 the lecturer.

ABOUT THIS UNIT

The objective of this unit is to provide an overview of the operation of the capital markets in Australia. The financial institutions are described and the securities offered by these institutions are reviewed. Emphasis is placed on the financial instruments available to companies and investors from the equity, debt and derivative markets.

TEACHING STAFF

Siang CHANG Mobile: 0411 954 519
SiangChang@Bigpond.com

Dr Peter JOHN Mobile: 0405 831 704
Peterkjohns@yahoo.com

Consultation time By arrangement via email.

CLASSES

There are twelve lectures and one in-class Mid-Semester test conducted in the following classes

Tue Room E4B 314, 2pm to 5pm
 Lecturer: Dr Peter John, Mid-Semester break 11/4 to 22/4
Tue Room E4B 314, 6pm to 9pm
 Lecturer: Siang Chang, Mid-Semester break 18/4 to 29/4
Fri Room E4B 314, 1pm to 4pm
 Lecturer: Siang Chang, Mid Semester break 18/4 to 29/4

REQUIRED AND RECOMMENDED TEXTS AND/OR MATERIALS

C. Viney, Financial Institutions, Instruments and Markets, McGraw-Hill, Sixth edition, 2009

The textbook may be purchased from the Macquarie University Co-op Bookshop, and students are advised to buy the book if they require additional reading to improve their understanding of the lectures.

TECHNOLOGY USED AND REQUIRED

Calculators will be allowed in the exams, and students are advised to bring their calculators to class.

If you are planning to use a programmable calculator, make sure that you erase all manually created programmes and stored information, and ask for permission from the lecturer before using it in the exams.

You are expected to show all workings for your calculations. All calculations should be to two decimal places, and rounding should be left till the end. Excessive and premature rounding will be penalised.

UNIT WEB PAGE

To access the course material on the Blackboard, follow the steps below:

<http://learn.mq.edu.au>

LOGIN

Type in USERNAME and PASSWORD

Click on ACCG837

Students are advised to check the unit website regularly, and ensure that all material posted on the website can be accessed without difficulties. If you are unable to access any of the material on the website, check with your classmates first before notifying your lecturer of the problem.

LEARNING OUTCOMES

Students are required to acquire adequate knowledge in the course that will result in meeting the following learning outcomes.

1. The financial system, the banks, the NBFIs and the market regulators
 - a) Explain the functions and various components of a financial system
 - b) Describe the main types of financial institutions and financial instruments
 - c) Evaluate the functions and activities of commercial banks and NBFIs
 - d) Identify the main sources and uses of funds for commercial banks and NBFIs
 - e) Outline the nature and importance of off-balance-sheet business
 - f) Examine the main risk exposures and consider related issues of regulation and prudential supervision of banks

2. The corporations, the corporate regulators and the stock exchange
 - a) Understand the nature of corporations and reasons for public listing
 - b) Discuss the many roles of a stock exchange, including flotation and listing, compliance requirements of listing a business
 - c) Identify the main regulators of the share market
 - d) Examine issues relevant to the choice between debt and equity funding
 - e) Equity-funding alternatives available to newly listed and established corporations
 - f) Understand the process of buying and selling shares, the risks involved, and the importance of taxation when investing
 - g) Describe indicators of financial performance

3. Debt securities

Overview of the characteristics of various forms of short-term and long term debt, including:

- a) Sources
- b) Reasons and patterns of use
- c) Advantages and disadvantages for borrowers and lenders
- d) Pricing of securities

4. Government, Economic policies and RBA

- a) Outline reasons why governments borrow
- b) Describe features of the main government debt instruments, issuance process, participants
- c) Outline monetary policy techniques used by the RBA to influence interest rates, including open market operations and the impacts on system liquidity
- d) Describe the purpose and operation of the payments system
- e) Describe the macroeconomic context of interest rate determination
- f) Apply the expectations theory, segmented markets theory and liquidity premium theory

5. Derivatives

- a) Outline features of futures, options and FRA transactions
- b) Review the types of futures and options contracts
- c) Understand the structure and operation of futures and option contracts
- d) Explain the profit and loss payoff profiles of futures and option contracts
- e) Develop futures and options strategies

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 and engaged participants in their world.

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

1. Discipline Specific Knowledge and Skills
 - to acquire working knowledge of the capital markets in Australia
2. Critical, Analytical and Integrative Thinking
 - to investigate a real life issue related to capital markets, and to apply critical, analytical and integrative thinking to the event.
3. Problem Solving and Research Capability
 - student must research a capital markets issue that is current and of sufficient complexity.
 - The process of identifying a suitable topic allows a student to browse many area of interest, and thus exposed the student to a wide range of capital markets event
4. Creative and Innovative
 - The study of the capital markets event allows the student to come up with some creative and innovative solution to the problem
5. Effective Communication
 - The project report provides a means of effective communication for the student, as the report will be graded on the way it is structured and argued, using the facts that have been identified.
6. Engaged and Ethical Local and Global citizens
 - The project report could encourage a student to think seriously the role of an engaged and ethical Local and Global citizens
7. Socially and Environmentally Active and Responsible
 - The project report could encourage a student to think about the social and environmental responsibilities of an individual
8. Capable of Professional and Personal Judgement and Initiative
 - The knowledge acquired in the course, and the research and completion of the project would develop a student's capability and initiative in exercising the professional and personal judgement
9. Commitment to Continuous Learning
 - The in class learning, as well as the project would introduce students to a greater sphere of capital markets knowledge, which may in turn open up a new frontier for continuous learning.

TEACHING AND LEARNING STRATEGY

The lecture notes, the multiple-choice questions (MCQ), and answers to selected essay questions are available on Blackboard.

Answers to the MCQ may contain error. It is important that students work through the MCQ, and examine the answers given. Do not blindly accept the answers. Correction will be posted on the unit website regularly as the error is discovered.

Students are advised to keep up to date with the MCQ and the essay questions, as at least 65% of the test and final exam questions will be based on them.

Make sure you have the same version of material as that in the Blackboard (on-line teaching facility).

A Group Project is to be handed in during Lecture 13. This will require the group to research a topic (maximum 3000 words) related to Capital Markets and based on recent events no later than three years old. See Attachment 1 for some examples.

The Assessment Task 1 (Quiz) and 2 (Test) are conducted during class time. The half-hour Quiz will be conducted in class during Lecture 4, and it will cover some of the materials from the first three lectures. The mid-semester test will be conducted during Lecture 9, the format and content will be confirmed in Lecture 8.

You are strongly advised to sit for the Quiz and the Test at the class time you have enrolled for, a change of assessment time will be very difficult to arrange.

The final exam will cover the remaining material. It will be conducted during the examination period and arranged by the Academic Program Section. Please check the official timetable for the time and location.

RELATIONSHIP BETWEEN ASSESSMENT AND LEARNING OUTCOMES

Quiz	5%
Individual Project	20%
Mid-semester test	35%
Final examination	40%

	Assessment Task 1	Assessment Task 2	Assessment Task 3
Title/Name	Quiz	Project	Test and Exam
Description	30 min in class	Full semester activity	In Class Test-2hr 45min Final Exam-3 hr
Due date	Lecture 4	Lecture 13	Test-Lecture 9 Final Exam-see official timetable
% Weighting	5%	20%	Test: 35%; Final Exam: 40%
Grading method - marking criteria/ standards	Quality of answers	- Structure of report -Quality and complexity of issue chosen - Standard of argument -Overall presentation	-Completeness of answers -Accuracy of answers -Quality of answers
Submission method	In Class	In Class	In Class
Feedback	Quiz and result will be returned by Lecture 7	Incorporated in overall mark	MT paper and result will be returned by Lecture 13; final exam result is incorporated in overall mark
Estimated student workload (hours)	5 hours per week minimum	40 hours or more	5 hours per week minimum
Learning outcomes assessed			
1	Required	Some or most of the learning outcomes 1 to 5	Required
2			Required
3			Required
4			Required
5			Required
Graduate capabilities assessed			
1	Required	Required	Required
2		Required	
3		Required	
4		Required	
5		Required	
6		Required	
7		Required	

	Assessment Task 1	Assessment Task 2	Assessment Task 3
8		Required	
9		Required	

Class attendance is recommended but not compulsory. It should be noted some of the assessment material is based on the lecture.

Quiz, mid-term test and final examination are included as an assessment task for this unit to provide assurance that the student has attained the knowledge and skills tested in the exams.

You are expected to present yourself for the quiz and test in Lecture 4 and 9 at the enrolled time and place of your normal lecture. The final exam 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 supplementary examination will be scheduled after the conclusion of the official examination period.

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>

Late submission of the project is not acceptable. A penalty of 1% per day late will be deducted from the mark awarded to the project. For example, a project is awarded 16% out of 20%, and is 2 days late, the mark will be 14% out of 20% after deducting the penalty of 2%.

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

Macquarie University uses the following grades in coursework units of study:

HD - High Distinction

D - Distinction

CR - Credit

P - Pass

F - Fail

Grade descriptors and other information concerning grading are contained in the Macquarie University Grading Policy which is available at:

<http://www.mq.edu.au/policy/docs/grading/policy.html>

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.

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 recognizes 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 is available at:

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

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>.

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 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.

LECTURE PROGRAM

	WEEK STARTING		CHAPTER
Lecture 1	21 st Feb	A modern financial system	1
Lecture 2	28 th Feb	Commercial banks	2
Lecture 3	7 th Mar	Non-bank financial Institutions	3
Lecture 4	14 th Mar	Class Quiz	
		The sharemarket and the corporation	4
Lecture 5	21 st Mar	Corporations issuing equity in the share market	5
Lecture 6	28 th Mar	Investors in the share market	6
Lecture 7	4 th Apr	Short-term debt	9
Lecture 8	11 th Apr or 25 th Apr (Note 1)	Medium-to-longer term debt	10
Lecture 9	2 nd May	Mid-Semester Test Ch 1 to 6 (To be confirmed)	
Lecture 10	9 th May	Futures contracts and forward rate agreements	19
Lecture 11	16 th May	Options	20
Lecture 12	23 rd May	Government debt, monetary policy and the payments system	12
Lecture 13	30 th May	Project Due In class	
		An introduction to interest rate determination and forecasting	13

Note 1:

In Siang Chang's classes, the mid-semester break is from 18th April to 29th April.
Lecture 8 will be conducted in the week starting 11th April 2011.

In Dr Peter John's class, the mid-semester break is from 11th April to 22nd April.
Lecture 8 will be conducted in the week starting 25th April 2011.

Note 2: Final exam – format and content will be confirmed in Lecture 11. See official exam timetable for time and location.

ATTACHMENT 1-EXAMPLES OF PROJECT TOPIC

The project may be conducted individually or in a group of no more than 4 members. If you plan to do it in a group, you are responsible to find your group members, and provide a mark (out of 100%) and a brief description of the responsibility for each of the group members in the report. The project mark for each member will be allocated in accordance with the effort and quality of the work. See Attachment 2 for some guidelines on the method of grading.

The project should research events related to Capital Markets and based on recent events that are no later than three years old. At least half of the report must be related to the Capital Markets in Australia, and the remaining from any other countries if necessary.

You may not copy any material from any textbooks, although you may use any other reference material. e.g. magazines, newspapers, websites, company reports etc. A qualitative approach is preferred, extensive quantitative analysis is not encouraged.

Some topics of interest are as follows:

1. Changes in capital raising activities in Australia and overseas since GFC
2. The implementation and impact of recent Australian Government Economic policies on the capital markets
3. Comparison of the Australian response to the GFC vs other countries
4. Comparison of current financial crises vs previous crises
5. Causes and responses to recent corporate failures in Australia and overseas
6. Recent changes in the Risk Management regulations and policies due to GFC
7. Recent development of the Superannuation Industry in response to GFC
8. Recent development of the Real Estate (mortgage, housing) market
9. The GFC and the European debt crises

The report must not exceed 3000 words, and the following format is suggested.

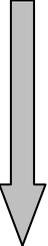
1. Use Portrait orientation
2. Use Times New Roman font, size 12 points
3. Use 1.5 spacing
4. Use A4 paper, single or double sided
5. Staple at the top left hand corner
6. Do not put the report in plastic sleeves or folders

The report must contain the following:

1. Cover page-including Course name, Title of report, Full name and Student ID.
2. Content
3. Executive Summary-A one page summary of the key findings of your research
4. Introduction-Provide a road map of how the report is structured
5. Body-Use as many headings as possible. Do not combine too many issues under one heading
6. Conclusion and Recommendation-This is not a summary, but to state some of the key issues you have found from the research, and any recommendation you may have as a result of your research.
7. Bibliography: You may use any system for referencing, a helpful guide can be found at: http://www.usq.edu.au/library/Breeze/Fac_Business/HarvardAGPS/

ATTACHMENT 2: STRUCTURED OBSERVED LEARNING OUTCOMES (SOLO)

The grading for the project report is based on the following guidelines:

Levels of Understanding	Indicative Verbs	Possible Grades	
Pre-structural	No understanding, Irrelevant information, Misses point	0% to 45%	Surface understanding  Deep understanding
Uni-structural	Identify, Do procedure, Recite, Memorise	50% to 64%	
Multi-structural	Classify, Combine, Describe, List Do algorithms, To enumerate	65% to 74%	
Relational	Explain cause, Integrate, Relate, Compare/contrast, Analyse, Apply	75% to 84%	
Extended Abstract	Generalise, Hypothesise, Theorise, Reflect, Generate	85% and above	