

MACQUARIE UNIVERSITY



Division of Economic and Financial Studies

UNIT OUTLINE

2006

ECON350: MONEY AND FINANCE
(Semester one)

Unit homepage: www.econ.mq.edu.au/courses/econ350

Unit convenor:
Dr Kim Hawtrey (khawtrey@efs.mq.edu.au)

**ECON350 MONEY AND FINANCE
2006**

Welcome from Kim Hawtrey

Hi, and thanks for choosing to join us in this unit. I hope you will find it stimulating, and also really useful for your career.

I am very enthusiastic about this class. This semester my pledge to you is to try my very best to:

- *communicate clearly what is expected so that you feel comfortable*
 → *example ... no math calculations required in the test or exam*
- *create a good learning atmosphere so that you feel free to explore ideas*
 → *example ... a choice of assignment options*
- *use a variety of teaching techniques that help you learn*
 → *example ... the 'video lecture' in week 4*
- *give constructive feedback so you know how you are travelling*
 → *example ... I will make written comments on your test and project*

In summary, I am genuinely interested in assisting your progress, and I wish you all the best in ECON350 this semester.

Kim Hawtrey

1. ABOUT THIS UNIT

ECON350 is about *domestic* (not international) financial *markets* (not institutions). A companion course (ECON 360) provides the global perspective and another course (ECON335) studies financial institutions.

In this unit we look at issues raised by money and finance in today's world. Money links together the various component parts of the economy. The finance sector is growing rapidly, with new innovations emerging all the time.

You will get the most out of ECON350 by closely following the recommendations below. Students should read this unit outline carefully at the start of semester. It

contains important information about the unit. If anything is unclear, please consult with the teaching staff in the unit.

2. TEACHING STAFF

Staff for the course:

Dr Kim Hawtrey (weeks 1-13)
Room: E4A432 Telephone: 9850-8504 Email: khawtrey@efs.mq.edu.au

Students can receive help with study skills, lecture content, project, resources, assessment, etc. If you have general enquiries about the unit, contact the Lecturer-in-charge (Dr Hawtrey). Email is the usually the best way. For specific enquiries about course notes, lectures, etc, contact the lecturer.

3. CLASSES

Students attend three classroom hours per week, comprising lectures. These are delivered in first semester in the following sessions:

Daytime: Thursday 3-6pm (X5BT1) **OR**

Evening: Tuesday 6-9pm (C5CT1)

Lecture slides can be obtained prior to each lecture by downloading from the unit webpage (www.econ.mq.edu.au/courses/econ350).

4. UNIT WEB PAGE

The web page for this unit can be found at:

<http://www.econ.mq.edu.au/courses/econ350>

5. LEARNING OUTCOMES

Upon successful completion of this unit you will:

- understand how **financial markets** impact our lives
- be able to analyse **interest rates**
- handle issues of **risk** and **forecasting**
- know the **strategies** of players in financial markets
- relate financial processes to **social issues**.

In addition to these discipline-related learning objectives, the unit will develop the following generic skills:

- critical analysis skills
- media skills

6. LEARNING TOPICS

1. Debt securities and markets
An overview of interest-bearing securities and the money market. How to use various financial instruments (such as bills, notes and bonds) and why markets are divided into categories such as discount versus coupon, original versus derivative, primary versus secondary.
2. Dealing in securities markets
Theory of auctions, applied to selling bonds under uncertainty. Why securities have 'two prices', not just one. What underwriters do.
3. Theories of the interest rate
What economic forces determine the rate of interest? Discussion of competing theories of the 'real' interest rate in a closed economy. Looks at the 'nominal' interest rate via the Fisher identity.
4. Happiness and financial progress
Considers the 'happiness paradox' in economies with advanced financial markets. Why doesn't the growth of financial markets make us happier?
5. Class test
Duration: 45 minutes. Ten multiple choice questions plus a one-page written question, covering lecture topics 1-4.
6. Social responsibility and financial markets
Why financial markets behaviour is a social issue. Measuring corporate social responsibility. Assessing the evidence for Australian financial markets.
7. Derivatives
Illustrates how fixed-rate derivatives such as forwards, futures, swaps and FRAs work. How to use these tools to hedge risk. Describes how options work.
Discusses various option strategies for the domestic financial markets.
8. Equity securities and markets
Provides an overview of dividend-bearing securities and the sharemarket. Outlines the various equity instruments (such as shares, warrants, EFTs) and how shares are traded. Risk and return in the sharemarket and key concepts such as beta and CAPM.
9. Charting and technical analysis
Introduces the methods of technical analysis and looks at how chartists track market movements in practice. Defines various terms such as 'head and shoulders', momentum models and support level. Discusses the fundamentals versus technical analysis debate.

10. Project
No lecture this week. Spend the time completing your media project Assignment, which is due by 8.00 pm sharp Thursday 18 May.
11. E-money and the payments system
How economic agents pay their bills and make payments. The evolution of 'e-money'. Issues raised by the payments mechanism for policymakers and analysts, such as risk and efficiency.
12. Monetary policy and transmission
How the RBA carries out daily liquidity management and implements changes to monetary policy settings. Contrasting monetary aggregates and interest rates as channels for policy. How a change in interest rates feeds through to the rest of the economy.
13. Revision
A practice examination, with solutions, will be used for revision prior to the final exam.

7. TEXTBOOK AND READING GUIDE

- (a) Unit Textbook:
Valentine, T. *et al*, *Financial Markets and Institutions in Australia*, Pearson/Prentice Hall, 2nd edition, 2006

Valentine is essential and is available from the Co-Op bookshop.

- (b) Other relevant books:
McGrath, M. and C. Viney, *Financial Institutions, Instruments and Markets in Australia*, 3rd edition, McGraw-Hill: Sydney, 2000.
Juttner, J. & K. Hawtrey, *Financial Markets, Money and Risk*, 4th edition, Addison Wesley Longman, Melbourne 1997
Eichberger, J. & I. Harper, *Financial Economics*, Oxford University Press, UK 1997.
Houthakker, H and P. Williamson, *The Economics of Financial Markets*, New York: OUP, 1996.
Kolb, R. and R. Rodriguez, *Principles of Finance*, 3rd edition, Allen and Unwin, 1995.
- (c) Financial reference:
McKinnon, C., *Reuters Financial Glossary*, Prentice Hall: London, 2000.
Phillips, D., M. Bignaud and F. Thompson, *Elsevier's Dictionary of Financial Terms*, Amsterdam, 1997 (Second Edition).
Paxson, D. & D. Wood, *The Blackwell Encyclopedic Dictionary of Finance*, Blackwell Publishers: UK, 1997.
- (d) Glossary of terms

A list of terms used in the unit can be found in the textbook (Valentine).

(e) Useful websites

Reserve Bank of Australia:	www.rba.gov.au
Bank for International Settlements:	www.bis.org
Australian Bureau of Statistics:	www.abs.gov.au
Australian Stock Exchange:	www.asx.com.au
New York Stock Exchange:	www.nyse.com
Australian Financial Review:	www.afr.com
Australian Financial Markets Association:	
www.afma.com.au	
Sydney Futures Exchange:	www.sfe.com.au
Australian Prudential Regulation Authority:	www.apra.gov.au
Australian Securities and Investments Commission:	www.asic.gov.au
Yahoo – Finance	
finance.yahoo.com	

8. TEACHING AND LEARNING STRATEGY

Summary: The unit is taught using the approach known as ‘experiential learning’. This seeks to involve students in their own learning as much as possible, using interactive lecture input, plus online participation, plus a class test, plus a project, plus practice exercises, plus a practice examination, leading to the final examination:

- in most weeks a set of on-line practice exercises is supplied (with solutions) to help you understand the topic better ... you should work on these during week by week (these ‘online tutorials’ take the place of formal tutorials)
- in week 5 a class test will help you practice multiple choice and short answer skills
- by week 10 an applied media project is due that will help develop your research and communication skills
- in week 13 a practice exam paper will be made available on the unit website (with solutions) to help you get ready for the final examination
- the final examination will test your success in the unit.

Lectures: You are expected to participate in all lectures. Lecture notes can be downloaded prior to class each week from the WebCT ECON350 homepage: <http://www.econ.mq.edu.au/courses/econ350>.

Virtual 'tutorials'

Instead of face-to-face tutorials, regular **online practice quizzes** are provided involving multiple choice, true/false, practice essay questions, case studies and web-based exercises. This testbank material follows Valentine (the textbook) and is purpose-written for the publisher by Kim Hawtrey. The practice exercises are designed to help students test their understanding of topics and practice for the examination. **Solutions** to testbank questions are provided as part of the online package. The Testbank is NOT to be formally submitted for marking. Students should complete one chapter per week.

→ **how to use the testbank** → log onto

http://wps.pearsoned.com.au/au_be_valentine_finmarket_2

and in the top left corner use the 'jump to' field to select the required chapter. This brings up a menu. Use it to work through the various exercises week-by-week. Upon completion of a Multiple Choice or True/False section, click 'Submit for Grading' to find your score and receive feedback on your answers. After completing the Essays, click on 'Hint' to check your answer. Solutions to Case studies and Internet Exercises are not included – these components are optional.

Assessment: Assessment for ECON350 is based on a class test, media project and final exam, weighted as shown below:

Class test	10%
Media Project	20%
Examination	70%

The **Class test** (10%) will be held in **week 5**, in class. It will comprise 10 multiple choice questions and a one-page written-answer question (time allowed will be 45 minutes). It will cover the material from weeks 1-4 of the course. No calculations or detailed worked case studies will be required in the test.

The **Media Project** (20%) is due in **week 10** and is designed to develop your media/communication skills, as well as economic research skills. It includes keeping a 'journal' of your learning experience on the project. You are offered a choice: select ONE option from following (both are worth equal marks):

Option A: Published journalist

Option B: Financial media reviewer

For explanation of these options, see next page.

Media project: options

Option A (Published Journalist):

Get your views published in a recognised news outlet between now and week 10, and attach a background report explaining the issues behind your published article. It can be:

- a letter to the editor published by a newspaper/magazine; **or**
- you be a caller to talk-back radio (on tape); **or**
- publish an article or comment; **or**
- other published journalism of similar standing (eg blog site)

You must supply evidence of your contribution (eg press cutting or audio tape).

You can work in a team of up to two people if you wish (both must perform/appear in the item). See details on page 11. Use the cover sheet on page 12. Submit a journal of your learning experience, using the Learning Journal formsheets on pages 15-16.

Option B (Financial Media Reviewer):

Review how the media reported on a set piece of financial research (see below), and write your own review. Use the set research paper, related file of media clippings, and readings on journalism. See details on page 13. Use the cover sheet on page 14. Submit a journal of your learning experience, using the Learning Journal formsheets on pages 15-16.

Due date: your project is due by **week 10 (Thursday 18 May, by 8.00 pm)**.

Submit your Project at ERIC (E4A ground level) in the lodging box provided by 8.00 pm sharp on the due date, using the correct cover sheet.

All students have the opportunity to attempt the Journalist project (Option A). If your attempts at Option A are not successful, you must do the Reviewer project (Option B).

The **Final Examination** (70%) will be two hours in duration and will consist of a mix of multiple choice and long-answer questions. The exam will be based on the lecture notes and set textbook chapters. The examination will aim to test concepts and understanding of principles, rather than detailed application of methods. No calculations or detailed worked case studies will be required in the exam.

The examination period is in June 2006. The only exception to not sitting the exam at the designated time is because of documented illness or unavoidable disruption. In these circumstances you may wish to consider applying for Special Consideration. Information about the procedure is available at <http://www.reg.mq.edu.au//Forms.APSCon.pdf>.

IMPORTANT: students must pass the final exam to pass ECON350.

9. UNIT PRIZE

The *Australian Finance Conference Prize for Money and Finance* is awarded each year to the student selected as the most outstanding performer in ECON350. The prize is open to all students proceeding to the degree of Bachelor and is valued at \$150.

10. 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 policies on plagiarism. These can be found in the *Handbook of Undergraduate Studies* or on the web at:

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

11. UNIVERSITY POLICY ON GRADING

Academic senate has a set of guidelines on the distribution of grades across the range from Fail to High Distinction. Your final result will include one of these grades plus a standardised numerical grade (SNG). On occasion your raw mark for the Unit (ie the total of your marks for each assessment item) may not be the same as the SNG that you receive. Under the Senate guidelines, results may be scaled to ensure that there is comparability across the University, and across different enrolment years. The process of scaling does not change the order of marks among students. For more information on the policy see:

<http://www.mq.edu.au/senate/MOUonly/Issues/Guidelines2003.doc>.

12. STUDENT SUPPORT SERVICES

Macquarie University provides a range of Academic Student Support Services. Details of these can be accessed at <http://www.student.mq.edu.au>.

13. 2006 UNIT CALENDAR - ECON350

Week no.	Week commencing	Topic	Textbook set reading	Online testbank to do?	Lecturer
1	27 Feb	Debt markets	chap 2	yes	KH
2	6 March	Dealing securities	chap 1	yes	KH
3	13 March	Theories of interest rates	pp205-8	no	KH
4	20 March	Happiness and finance	..	no	KH
5*	27 March	Class test	..	no	KH
6	3 April	Social issues in finance	pp51-3	no	KH
7	10 April	Derivatives	chaps 14,15	yes	KH
BREAK					
8	1 May	Share markets	chap 11	yes	KH
9 KH	8 May	Charting and technical analysis	##	no	
10** KH	15 May	Project	
11 KH	22 May	E-money	chap 12	yes	
12	29 May	Monetary transmission	chaps 8,9	yes	KH
13 KH	5 June	Revision	download prac exam		

* Class test week 5

Testbank exercises: these are available at www.prenhall.com/valentine_au
... you should work steadily through the exercises week-by-week, aiming to complete the exercises by week 13.

** Project: due week 10, by Thursday 18 May 8.00 pm sharp

Text reading for topic 9 ('Market trading and technical analysis') is taken from the previous edition of Valentine (chapter 13) and can be downloaded from MU Library Reserve

14a. PROJECT INSTRUCTIONS: OPTION A

Option A: Published journalist

The task: (a) Get your views published in a news outlet between now and week 10.
(b) Write a background report explaining the economic issues behind

your

contribution and the challenges you faced getting into the media and writing in 'media style'

(c) Compile a journal reflecting on your learning experience on this assignment, using the Learning Journal on pages 15-16.

Required length: Part (a) minimum 25 words
Part (b) 500 words
Part (c) 300-500 words

Particular instructions:

Your published journalism could be:

- a letter to the editor published by a newspaper/magazine (can include student magazines and local papers) – supply the press cutting; or
- you could be a caller to talk-back radio (can include community radio) – supply a tape of your call; or
- publish an article or comment in a magazine or newspaper – supply a copy; or
- 'blogging' ... this means getting your article published on a website for open journalism ... eg www.citizenreporters.com (your article will be rated by readers) or www.blogit.com (readers pay to read your article) – supply print of website pages; or
- other websites, provided they belong to a registered body listed in the phone book (not chat rooms or personal sites) – supply a print of your article; or
- other published journalism of similar standing

You can work in a team of up to two people if you wish (both must appear in the item and submit a separate cover sheet)

General instructions:

Your assignment must provide evidence of your published journalism (eg press cutting or audio tape) and be neatly written or typed, using one side of the paper only. Keep a dated, witnessed photocopy of your assignment in case of misadventure. Late assignments will be subject to penalty, and plagiarism will receive strict disciplinary measures. Assignments submitted late may or may not be accepted, at the discretion of the lecturer-in-charge. After staff processing, all

marked assignments will be returned to students in Week 13 of semester (they can be collected at ERIC).

Submission:

Attach the Option A cover page from **page 12** to the front of your project.

ECON350

SURNAME:

PROJECT COVER SHEET: OPTION A (PUBLISHED JOURNALIST)

(to be stapled to the front of your project)

DUE DATE: Thursday 18 May 2006 (8.00 pm)
(To be deposited in ECON 350 Box in ERIC, E4A).

CHECKLIST:

1. Have you made a photocopy of your assignment?
2. Have you stapled all pages together? Do not submit essay in a manilla or plastic folder.
3. Have you attached this cover sheet?
4. Have you read the University statement against plagiarism (p.9)?
5. Have you attached your Learning Journal?

Name: _____ Student No. _____
(Surname) (Initials)

Short
Title: _____

—

ASSESSMENT	Good	Fair	Poor
Presentation			
Acknowledgements			
Economic understanding			
Use of media			
Learning journal			

MARKS DEDUCTED

(Lateness; No Acknowledgments; Illegibility;
Too short or too long; Poor grammar) _____

FINAL MARK (out of 20) _____

MARKER'S COMMENTS:

14b. PROJECT INSTRUCTIONS: OPTION B

Option B: Financial media reviewer

The task: (a) Critically evaluate how the media reported on Kim Hawtrey's research paper (see reference below). Hints: did the media report the research

correctly? why was this topic considered newsworthy? is there any bias? strengths and weaknesses of various papers/journalists? what communication skills do you notice journalists exhibit? etc)

(b) Write your own original newspaper 'report' (not for actual publication)

on the Hawtrey research paper

(c) Compile a journal reflecting on your learning experience on this assignment, using the Learning Journal on pages 15-16.

Required length: Part (a) 1000 words
Part (b) 500 words
Part (c) 300-500 words

Resources (all available via MU Library reserve):

(a) K. Hawtrey (2003), 'Banks' non-interest income: an international study', *Research Discussion Paper*, Australian Bankers Association (can also be downloaded from <http://www.bankers.asn.au/Default.aspx?ArticleID=558>)

(b) File: 'Option B media clippings'

(c) The following reading material on the media may be useful:

'Thirty tools for Writers', an article on the Poynter website at http://www.poynter.org/content/content_view.asp?id=707

O'Shaughnessy, M. & J. Stadler (2002), *Media and Society: An Introduction*, Oxford University Press (2nd edition), chapters 5 and 6

General instructions:

Your assignment should be no longer than 2000 words in length, neatly written or typed, using one side of the paper only, and properly annotated with supporting

footnotes and references. Standard academic presentation guidelines should be adhered to where appropriate. Keep a dated, witnessed photocopy of your assignment in case of misadventure. Late assignments will be subject to penalty, and plagiarism will receive strict disciplinary measures. Assignments submitted late may or may not be accepted, at the discretion of the lecturer-in-charge. After staff processing, all marked assignments will be returned to students in Week 13 of semester (they can be collected at ERIC).

Submission:

Attach the Option B cover page from **page 14** to the front of your project.

ECON350

SURNAME:

PROJECT COVER SHEET: OPTION B (REVIEWER)

(to be stapled to the front of your project)

DUE DATE: Thursday 18 May 2006 (8.00 pm)

(To be deposited in ECON 350 Box in ERIC, E4A).

CHECKLIST:

1. Have you made a photocopy of your assignment?
2. Have you stapled all pages together? Do not submit essay in a manilla or plastic folder.
3. Have you attached this cover sheet?
4. Have you read the University statement against plagiarism (p.9)?
5. Have you attached your Learning Journal?

Name: _____ Student No. _____
 (Surname) (Initials)

Short Title: _____

—

ASSESSMENT	Good	Fair	Poor
Presentation			
Acknowledgements			
Economic understanding			
Media analysis			
Learning journal			

MARKS DEDUCTED

(Lateness; No Acknowledgments; Illegibility;

Too short or too long; Poor grammar) _____

FINAL MARK (out of 20) _____

MARKER'S COMMENTS:

**15. LEARNING JOURNAL
(include with your assignment)**

Name:

I.D.

A. Record of learning activities

From start to finish of this assignment, list the major activities undertaken (eg read references → planned my approach → engaged with media → worked in a team → reflected on my experience etc). Comment on how they helped teach new skills or enhance understanding of your own abilities:

<i>Activity</i>	<i>Comment</i>
-----	-----
-	-----
-	-----
-----	-----
-	-----
-	-----
-----	-----
-	-----
-	-----

Question four: What insights have you gained into your own strengths and interests?

Question five: Have you gained a fresh perspective on your future career? How?

Question six: Compared with other assignments you have done at university, describe what you found helpful about this one.

JOURNALISM SKILLS: CHECKLIST

Grammar / Format:

Spelling

Punctuation

Style

Structure

Compelling/ Worthiness:

Desirable

Meaningful

Importance

Interesting

Relevant

Integrity Meter:

Do you trust this article/reporter?

Hidden agenda?

Independent?

Overall Quality:

Accurate

Concise

Consistent

Comprehensive

Proportional