



**MACQUARIE UNIVERSITY**

**Division of Economic and Financial Studies**

**ECON350 MONEY AND FINANCE**

**UNIT OUTLINE**

**SEMESTER 1, 2008**

**(‘Class\_01’)**

**(‘Class\_02’)**

**Lecture Times:**

**Tuesdays, 18:00 – 21:00 hours**

**Thursdays, 15:00- 18:00 hours**

**Lecture Dates:**

**26 February;  
4, 11, 18 & 25 March;  
1, 8 & 29 April;  
6, 13, 20 & 27 May; and  
3 June 2008**

**28 February;  
6, 13, 20 & 27 March;  
3 & 10 April;  
1, 8, 15, 22 & 29 May; and  
5 June 2008**

**Lecture Venue:**

**C5C T1**

**X5B T1**

**Proposed Mid-Term**

**Test Date:**

**8 April 2008**

**10 April 2008**

**Final Examination Date (for both ‘Class\_01’ and ‘Class\_02’):**

**Date to be announced**

**Course Professor:**

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## I Objectives

- ECON350 provides a review and analysis of the role and characteristics of financial markets and the institutions and intermediaries that facilitate the various markets' primary and secondary market functions.
- The focus will be on both the Australian and broader Asian context, with applications made in particular to China's equity markets (namely Hong Kong and Shanghai).
- The structure of equity, debt (fixed-income) and derivative markets feature as key areas with due consideration given to the characteristics and pricing of the underlying securities that trade in such markets.

## II Assessment Form

The course is assessed in the following way\*:

- |      |                   |       |
|------|-------------------|-------|
| (i)  | Mid-Term Test     | (40%) |
| (ii) | Final Examination | (60%) |

The percentage contribution of each assessment component to a student's final grade is given by the figures in parentheses.

For a student to achieve at least a 'pass' grade for the course offering, the University stipulates that a grade at least at the 'pass' level must be achieved in both the final examination and overall unit assessment.

- \* Students are also expected to complete three individual assignments in their own time. The assignments will not be graded. Model solutions will be made available within two weeks of each assignment being circulated. The assignments provide an opportunity for students to apply the materials covered in lectures and, importantly, offer useful preparation for the mid-term and final examination assessment forms.

### III Reference Materials

All course materials, representing my lecture materials, plus any handouts wherever appropriate, will be made freely available and uploaded on to the Blackboard system.

There is no specific required text for this course, though students may find the following useful for background information relating to Australian financial markets and institutions:

Valentine, T., Ford, G., Edwards, V., Sundmacher, M. and Copp, R., Financial Markets and Institutions, Second Edition, Pearson Education Australia.

For equity market-based issues relating to Hong Kong, useful reference can be made to the following text:

McGuinness, P.B., A Guide to the Equity Markets of Hong Kong, Oxford University Press, 1999.

In relation to general corporate finance-based issues, the following is highly recommended as a background reference:

Brealey, R. A. and Myers, S. C., Principles of Corporate Finance, 6<sup>th</sup> Ed., McGraw-Hill.

#### Useful website References:

Australian Securities Exchange (ASX) website:

<http://www.asx.com.au>

Hong Kong Exchanges and Clearing Company Ltd.'s website:

<http://www.hkex.com.hk>

China Securities Regulatory Commission website:

<http://www.csrc.com.cn>

Bank of New York Mellon's ADR Directory:

[http://www.adrbny.com/home\\_dr.jsp](http://www.adrbny.com/home_dr.jsp)

Yahoo finance (for stock quote and trading histories):

<http://finance.yahoo.com>

Reserve Bank of Australia's website:

<http://www.rba.gov.au>

World Federation of Exchanges' website:

<http://www.world-exchanges.org>

## **IV Topic Areas to be Covered**

### **1. Introduction**

- Overview of the finance discipline.
- The nature and functions of financial institutions and markets.
- The key characteristics of treasury bills, government bond, corporate bonds, ordinary (common) stock and preferred stock.

### **2. Simple Financial Mathematics and the Determination of Interest Rates**

- Net present values (NPV) and their determination in relation to both real (i.e., project/capital budgeting cases) and financial investments.
- The calculation of an investment's internal rate of return (IRR) and its relation to NPV.
- Interpreting NPVs and IRRs within the context of the Efficient Markets Paradigm (EMP).
- The computation of a company's Weighted Average Cost of Capital.
- Simple and effective rates of interest.
- Nominal and real rates of interest and the (Irving) Fisher Identity.
- Theories relating to the determination of general interest rate levels.

### **3. Bond Pricing and the Term Structure of Interest Rates**

- The generic characteristics of bonds and the price-redemption yield relation.
- The structure of the US Treasury market: Treasury Bills, Treasury Notes, Treasury Bonds and Treasury STRIPs.
- Spot and forward rates.
- The yield curve.
- Explanations of term structure.
- Duration and bond immunization.
- Debt-equity hybrids (Convertible bonds, exchangeable bonds, equity-linked notes ...).
- Interest rate swaps.

### **4. The Structure of Equity Markets**

- Global equity market comparisons.
- Background to the Australian and Asian equity markets in general.

- China's equity markets: The structure of the Hong Kong, Shanghai and Shenzhen markets.
- The Characteristics of H- share and red-chip issuers in Hong Kong.

## **5. Market Efficiency, the Capital Asset Pricing Model (CAPM) and Anomalous Stock Pricing Behaviour**

- Definitions of market efficiency.
- Essentials of stock pricing and the underlying risk-return relation.
- The structure and estimation of the CAPM.
- Calendar and firm-size effects.

## **6. New Share Issues and the Listing Decision**

- The various motivations for initial public offering (IPO).
- The Characteristics of firms approaching IPO: Stock reorganization and the infusion of private equity stakes.
- The IPO process: Primary and Secondary offering forms.
- Case studies of IPOs in action:  
Case Study I: The New World Department Store China Limited listing of June 2007 (issue prospectus available at:  
<http://www.hkexnews.hk/listedco/listconews/sehk/20070628/LTN20070628020.HTM> ).  
Case Study II: The China Merchants Bank Company Limited H- share listing of September 2006 (issue prospectus available at:  
<http://www.hkexnews.hk/listedco/listconews/sehk/20060908/LTN20060908005.htm> ).

## **7. Seasoned Stock Issues**

- Comparison of 'Unseasoned' and 'Seasoned' stock issues.
- Non-capital raising new issues: stock splits and bonus issues.
- Private Placings and Rights Issues.  
Case study to illustrate the workings of a rights offering:  
Case Study III: The New World China Land Limited rights offering of February 2005 (issue document available at:  
<http://www.hkexnews.hk/listedco/listconews/sehk/20050221/LTN20050221020.pdf> ).

## **8. Dual listings, American Depositary Receipts (ADRs) and Reverse Takeovers**

- The mechanisms and benefits for dual (or multiple) listing.
- The structure and characteristics of American Depositary Receipts/Shares.
- The nature of Reverse Takeovers (or ‘Backdoor listings’).

## **9. Derivatives I: Options & Warrants**

- Introduction to options and the key concepts underpinning 'option-based' securities.
- Put-Call Parity
- The valuation of call and put options
- Options and warrants compared

## **10. Derivatives II: Forwards & Futures**

- The form of futures/forward contracts
- Their role in hedging price risk (in relation to security investments, inventorial prices and exchange rates)
- Futures trading strategies

## **11. Foreign Exchange Markets**

- The characteristics of foreign exchange markets
- Theories of spot/forward exchange rate pricing and the Interest Rate Parity Theorem

By the end of this course offering students should be familiar with:

- The key functions of a financial market and its role in servicing the real economy
- The essential characteristics of a range of ‘cash’-based and derivative style instruments
- The role of intermediaries and institutions in facilitating primary and secondary market operations

- The salient characteristics of major financial markets within the Asia-Pacific region, especially those relating to Australia and China (i.e., the Mainland PRC and Hong Kong SAR).

### University Requirements Governing the Overall Learning Process

All students will undoubtedly be aware of the basic university protocols governing academic behaviour. Though I take it as given that all students conform to such norms, reference can be made to the following website:

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

For general background on the administration, grading, enrolment and a variety of other course-related issues, see the links identified at:

<http://www.efs.mq.edu.au/undergraduate/quicklinks>