



**ACCG 875
INVESTING IN EMERGING MARKETS**

**UNIT OUTLINE
2nd SEMESTER 2006**

**DEPARTMENT OF ACCOUNTING & FINANCE
DIVISION OF ECONOMIC & FINANCIAL STUDIES**

Unit description

This subject offers students a detailed analysis of investment in emerging financial markets. Emerging financial markets have certain features that differentiate them from financial markets in developed countries. These differences bring about special challenges and provide diverse range of opportunities for investors. Investment in emerging markets exhibit high expected return, high volatility and low correlation of return with return in developed markets. Higher rate of return is usually attributed to faster economic growth and to market inefficiency. Higher risk arises from currency fluctuations, restrictions on foreign investment and on repatriation of capital, potential price volatility, lesser liquidity of traded shares, nationalisation or expropriation of assets and political instability. From a practical point of view, the challenge for prudent investors is how to deal with these risks in order to benefit from higher rate of return provided by these markets. From a theoretical point of view, the challenge is how to modify the traditional models in order to make them more relevant to issues that are specific to emerging markets. We discuss investment issues in emerging markets from both theoretical and practical point of views. Geographic focus is in Asian countries.

Learning Outcomes

By the end of ACCG 875 students should understand the following investment issues

- Characteristics of emerging financial markets.
- Recent developments in emerging markets: Implications of privatisation, integration/liberalization, and reforms.
- Asset allocation, volatility and linkages in emerging capital markets.
- Portfolio versus direct investment in emerging markets.
- Political risk, currency risk, speculative craze, and market manipulation.
- Systematic risk and alternative CAPM for emerging financial markets.
- Foreign direct investment in emerging economies.
- Project finance in emerging economies.
- Valuation of direct investment and the cost of capital in emerging economies.
- Financial crises in emerging markets.
- Derivatives and hedging instruments in emerging markets.

Further, the course should help students develop the following generic skills:

- Familiarity with the language of finance.
- Ability to think at the abstract level required in finance.
- Capacity to select/modify techniques to overcome limited information.
- Capacity to critically comment on events reported in the financial press, especially issues which are relevant to emerging markets.

Assumed Knowledge

There is no specific assumed knowledge.

Faculty

Dr Mehdi Sadeghi (E4A 514, Tel: 02 9850 8527), msadeghi@efs.mq.edu.au

Assessment

Major assignment	20%
Case studies	20%
Final exam	60%

Final Grades

A weighted average of the above grade components will determine the students' overall grade. Final letter grades will be based on a curve of the overall grades. To ensure fairness to all students, individuals will not be allowed to do any extra credit work.

Make-up and Drop Policy. Make-up exams are not permitted except for documented medical emergencies. If the University policies allow, a student may withdraw/drop the course within the timeframes set by the University. Students who drop the course after the official withdraw/drop timeframe will receive a grade based on what they have earned in the course at that point in time.

To achieve a minimum of a pass grade in the unit, students need successfully to:

- attend and participate in weekly lectures
- attempt case study
- attempt the major assignment
- attempt the end-of-semester (final) examination and achieve a minimum of a pass grade.

Under the current grading system, a standardised numerical grade (SNG) will be awarded together with a band grade HD, D, Cr, P, PC, or F.

It is important for students to note that the SNG is NOT the weighted aggregate of the raw marks for the above assessment components. It is rather a detailed grade that is chosen from 0 to 100 based on other criteria as well as the raw marks. For instance, the SNG for a student who gains a raw aggregate mark of 55 but fails the test/examination would be lower than 45 indicating that he/she fails the unit.

As such, an SNG of, say, 73 or 74 do NOT mean that the student's aggregate mark is one or two marks below the threshold for a D. It means that his/her work and performance in the course is of predominantly good quality and did better than other students in the Cr band but not quite of superior quality needed for a D.

Lectures

Lectures are conducted in two hours, followed by one hour of case presentation:

Day Friday 12:00 - 15:00 E4B Room 316

Prescribed text and references

Text book for the subject is *Financial Decisions in Emerging Markets* by Jaime Sabal. Reference books include *Emerging Financial Markets* by David Beim and Charles Calomiris, and *Project Finance in Asia Pacific* by Richard Tinsley.

All other readings will be available in ERIC, or will be distributed in the lecture on weekly basis. Readings in ERIC are separated in different folders according to the weekly lecture topics. All other readings are in the "General" folder.

Major assignment

Major assignment will be handed out in the first lecture. The assignment will be due **by 5pm on Friday 3rd of November** at ERIC. Assignments handed in late will lose 10% for each day late.

Case studies

Students are expected to form a group of 2-3 students to present one case study on project finance in emerging markets every week. Each group will be responsible for preparing one case study. A written report of no more than eight pages (including exhibits) is to be submitted to the LIC at the end of the presentation. Allocation of case studies will be conducted after the first lecture.

End-of-semester (final) examination

The end-of-semester (final) examination is of three-hour duration. Details will be provided by the 11th week of the semester. All lecture topics, highlights of case studies and the major assignment are examinable.

Unless prevented by illness, misadventure or unavoidable disruption students must attempt the end-of-semester exam at the time scheduled by the University. Special consideration will be given only to students who throughout the semester have achieved a satisfactory progress in all other assessment components.

Special consideration requests will only be considered if the student has correctly followed the prescribed application process, which is explained here:
<http://www.reg.mq.edu.au/Forms/APSCons.pdf>

Policy on cheating and plagiarism

The University policy on cheating and plagiarism applies in this unit. The policy can be accessed through the University's home page. Students are advised to read the policy. In addition, students are advised to consult the Division of Financial and Economic Studies (EFS) information on cheating and plagiarism, which can be accessed at:
<http://www.student.mq.edu.au/plagiarism/>

Schedule of Topics

Date	Week	Lecture Topic	Other Readings	Text Readings	Case Study
30 th July	1	Introduction to Investing in Emerging Markets (EMs)	Lecture Notes Bein & Calomoris (BC), Ch 1	Sabal, Ch 1	Allocation in the first week
7 th Aug	2	Investing in Equity and Debt in EMs	Lecture Notes, handouts, BC Ch 1	Sabal, Ch 2	
14 th	3	Measuring Return and Risk, Diversification in EMs	Lecture Notes	Sabal, Ch 3 - 4	
21 st	4	Asset Pricing Models in EMs	Lecture Notes, readings in Library Reserve	Sabal, Ch 6 - 7	
28 th	5	FDI	Lecture Notes, readings in Library Reserve		
4 th Sep	6	Project Finance in EMs	Lecture Notes, readings in Library Reserve	Sabal Ch 11	
11 th	7	Risk Analysis & Project Valuation in EMs	Lecture Notes	Sabal, Ch 8	

Date	Week	(Special) Lecture Topic	Other Readings	Text Readings	Case Study
2 nd Oct	8**	Liberalization & Integration	Lecture Notes, Ch 3 BC, readings in Library Reserve		
9 th	9	Financial Crisis & Risk	Lecture Notes, Ch 8 BC, readings in Library Reserve		
16 th	10	Contagion	Lecture Notes, readings in Library Reserve		
23 rd	11	Derivatives in EMs	Lecture Notes, readings in Library Reserve	Sabal Ch 9	
30 th	12	"Revision"			
6 th Nov	13	Final Exam			