LECTURERS
A\Professor Andrzej Kozek,
Office: E4A 508
Office hours: Thursdays 4-6pm
Email: akozek@efs.mq.edu.au
Phone: +61 2 9850 8556 Fax: +61 2 9850 7669

Dr Nino Kordzakhia,
Office: E4A 537
Office hours: Wednesdays 2-4pm
Email: nkordzak@efs.mq.edu.au
Phone: +61 2 9850 8549 Fax: +61 2 9850 7669

Aims
This unit aims to integrate a basic understanding of how financial markets work
with the analytic tools for modelling their time-dependent structures. Since these
structures are based on random (“stochastic”) processes, stochastic models
underpin the methods. Where feasible, analytical methods are developed. The aim is to
present as much financial theory about securities markets as possible without requiring
the advanced mathematics that is associated with continuous time models.

Target Audience: Students with a major in Actuarial Studies, Statistics, or Finance.
Prerequisite: Basic probability theory (Stat272 or equivalent)
Text: Mathematics for Finance: An Introduction to Financial Engineering by M. Capinski
Webpage http://www-users.york.ac.uk/~tz506/m4f/
Lecture notes, assignments and associated material will be available via WebCT.
Login at http://online.mq.edu.au.
Time and Place: Thursday 6-9pm in C5C 240
NOTE: Some examples, exercises and Excel files are available from
http://www-users.york.ac.uk/~tz506/m4f/
WEBCT
We’ll be using WebCT for discussions and information dissemination. We’ll regularly post updates/corrections of lecture notes and assignments, etc.

DISTANCE MODE
Distance students will receive lecture notes and assignments by mail. Please contact Leslie Mooney, the postgraduate administrator, if you feel the notes have gone astray. Her phone number is +61 2 9850 8550 and email address is lmooney@efs.mq.edu.au.

Please send your assignment solutions to
A/Professor Andrzej Kozek
Statistics Dept, EFS, Building E4A 508
Macquarie University
Sydney NSW 2109
Australia.

COURSE WEBSITE
There is a course website at
http://www.stat.mq.edu.au/ug/units/stat_units400/stat401
The login button will take you to the WebCT login screen.

PROGRAM

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<th>Topic</th>
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<tr>
<td>1</td>
<td>2 Aug</td>
<td>Introduction: A Simple Market Model</td>
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<td>2</td>
<td>9 Aug</td>
<td>Risk Free Assets</td>
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<td>3</td>
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<td>Risky Assets</td>
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<td>4</td>
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<td>Discrete Time Market Model</td>
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<td>5</td>
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<td>Portfolio Management</td>
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<td>6 Sept</td>
<td>Kelly Criterion and a Rule of Thumb</td>
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<td>Portfolio Management Cont.</td>
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<td>Forward and Future Contracts</td>
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<td>11 Oct</td>
<td>Options: General Properties</td>
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<td>Options Pricing</td>
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<td>11</td>
<td>25 Oct</td>
<td>Financial Engineering</td>
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<td>12</td>
<td>1 Nov</td>
<td>Variable Interest Rates</td>
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<td>13</td>
<td>8 Nov</td>
<td>Credit risk modelling applications (Dr John Jarratt, head of Group Portfolio Unit, Westpac Banking Corporation)</td>
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ASSESSMENT
Assessment consists of:
Final exam 55%
3 random, not-announced, quick class tests 15% (5% each), (the external students have to return it by WebCT on the same day)
2 Assignments 30% (15% each)

Satisfactory performance is required in all aspects of the unit. Students who have not performed satisfactorily in the assignments will not be permitted to sit the examination.

A calculator and four (4) A4 sheets of summary notes written on one or both sides in the student's own handwriting may be taken into the final examination.

PLAGIARISM. You can find the University policy on plagiarism at http://www.student.mq.edu.au/plagiarism/

SOFTWARE
Matlab is our preferable software for solving assignments and classroom problems. We will provide Matlab code used in solving examples discussed in the class. We also recommend using Scientific Notebook in reporting assignments and solving analytical problems.