Unit code: Accg 837

Unit Name: Capital Markets

Semester One

Year 2011

Department of Applied Finance and Actuarial Studies
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

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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**


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**

<table>
<thead>
<tr>
<th>Assessment</th>
<th>Percentage</th>
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<tbody>
<tr>
<td>Quiz</td>
<td>5%</td>
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<tr>
<td>Individual Project</td>
<td>20%</td>
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<tr>
<td>Mid-semester test</td>
<td>35%</td>
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<tr>
<td>Final examination</td>
<td>40%</td>
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<tr>
<td>Assessment Task</td>
<td>Assessment Task</td>
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</tr>
<tr>
<td><strong>Title/Name</strong></td>
<td>Quiz</td>
</tr>
<tr>
<td><strong>Description</strong></td>
<td>30 min in class</td>
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<tr>
<td><strong>Due date</strong></td>
<td>Lecture 4</td>
</tr>
<tr>
<td><strong>% Weighting</strong></td>
<td>5%</td>
</tr>
<tr>
<td><strong>Grading method</strong> - marking criteria/standards</td>
<td>Quality of answers</td>
</tr>
<tr>
<td><strong>Submission method</strong></td>
<td>In Class</td>
</tr>
<tr>
<td><strong>Feedback</strong></td>
<td>Quiz and result will be returned by Lecture 7</td>
</tr>
<tr>
<td><strong>Estimated student workload (hours)</strong></td>
<td>5 hours per week minimum</td>
</tr>
<tr>
<td><strong>Learning outcomes assessed</strong></td>
<td>1 Required</td>
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<td>2</td>
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<td>5</td>
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<tr>
<td><strong>Graduate capabilities assessed</strong></td>
<td>1 Required</td>
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<td>7</td>
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</table>
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:


**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.


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

Note 1:  
In Siang Chang’s classes, the mid-semester break is from 18\textsuperscript{th} April to 29\textsuperscript{th} April. Lecture 8 will be conducted in the week starting 11\textsuperscript{th} April 2011.

In Dr Peter John’s class, the mid-semester break is from 11\textsuperscript{th} April to 22\textsuperscript{nd} April. Lecture 8 will be conducted in the week starting 25\textsuperscript{th} 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:

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

Surface understanding

Deep understanding