This document sets out the structure of this course and its requirements.

It will be assumed that students are familiar with these requirements.

Please read this document carefully before Week 2.

Direct any question to your lecturer or tutor in Week 2.
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## 1. Course Description

Portfolio Management of Financial Assets is one of the four core courses in finance. The prerequisite requirement is a pass in FINS1613 and there is no exception to this University ruling. We also welcome students from other programs.

This course studies (i) the pricing of fixed-interest securities, common stocks, options and futures contracts, and (ii) investment theories including:
• The Markowitz theory, despite its development in the early 1950s, is still applied widely by savvy investors and practitioners to design portfolios and select alternative investments.
• The Capital Asset Pricing Model, introduced by William Sharpe in 1964, formulates an exact relationship between risk and expected return. Funds managers apply this model extensively to manage portfolio risks, locate mispriced assets and evaluate performance.
• The Single Index Model, which explain the two types of investment risk, namely systematic risk and unsystematic risk, and is adopted by practitioners to estimate asset betas, identify mispriced assets, and conduct events studies to test the market for efficiency.
• The Efficient Market Hypothesis proposed by Eugene Fama is discussed before we conduct a survey on market anomalies to suggest investment strategies that may earn abnormal returns.
• Term structure theories, namely, the expectations theory and liquidity premium theory, are used to explain the choice of bonds with different maturities and the shape of the yield curve.
• The Black-Scholes (1973) option pricing model is applied to price call and put options. We also use payoff and profit/loss diagrams to show how options can be used to improve returns, limit risk exposures, and formulate investment strategies for different market conditions.

This course also involves spreadsheet applications on asset pricing and investment theories to put theories into practice. The initial development of these spreadsheet applications in 1999 by Henry Yip is kindly supported by a National Teaching Development Grant (Individual) offered by the Committee for University Teaching and Staff Development (CUTSD).

2. Course Objectives
By
• placing an equal emphasis on theory and practice,
• constantly relating various finance theories to events observed in the financial markets, and
• designing a vigorous tutorial program to demonstrate the practicality of the theories studied, we aim to
  • encourage critical thinking, deep and positive learning,
  • see you becoming a more informed, knowledgeable and rational investor, and
  • equip you with the pre-requisite knowledge required by more advanced funds management courses offered by the School of Banking and Finance including, among others, FINS3640, FINS3641 and FINS3642.

3. Approach to Learning
To excel in and get the most out of this course, you are strongly encouraged to
• attend and pay attention in all lectures and tutorials (3 hours per week),
• revise all lecture related materials as soon as practicable (an average of 3 hours per week),
• study the spreadsheet applications, and attempt all the suggested questions prior to a tutorial class (an average of 3 hours per week),
• attempt all assignment questions (an average of 1 hour per week),
• participate in tutorial discussion, AND most importantly,
• ask and answer questions in lectures and tutorials,
• seek help during staff consultation hours, and
• understand rather than memorise.
4. **Important Dates**

- Fri 12 Mar: last day to enrol in Session 1 courses
- Wed 31 Mar: last day for students to discontinue without financial penalty from Session 1 courses
- Fri 30 Apr: last day for students to discontinue without academic penalty from Session 1 courses
- Wed 19 May: last day for students to advise of examination clashes
- Week 5 commencing 29 Mar: Part I of assignment due
- Week 7: mid-session exam
- Week 12 commencing 24 May: Part II of assignment due
- 18 Jun – 6 Jul: examination period

5. **Student Requirements and Accountabilities**

5.1 **Passing the Course**

In order to pass this course, you must:
- achieve a composite mark of at least 50 AND
- attempt all assessable components shown in the table below.

5.2 **Assessment**

This course will be assessed as follows:

<table>
<thead>
<tr>
<th></th>
<th>Tutorial</th>
<th>Assignment</th>
<th>Mid-session exam</th>
<th>Final exam</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>10%</td>
<td>20%</td>
<td>30%</td>
<td>40%</td>
<td>100%</td>
</tr>
</tbody>
</table>

5.2.1 **Tutorial**

Tutorial assessment is based on two tutorial presentations. Refer to section 6.3.7 for details.

5.2.2 **Assignment**

The assignment will be posted to the course web page as soon as it is available. You can locate the web page via WEBCT at the following address:

http://webct.edtec.unsw.edu.au/

The assignment has two parts, one due in week 5 and the other in week 12. Students must complete both parts of the assignment with their team (refer to section 6.3.4 on tutorial organization). In addition to the specific instructions and requirements listed in the assignment, students should never place their reports under the lecturer’s or tutor’s door. If a team fails to submit one part of the assignment, the team members are deemed to have made an unsatisfactory attempt to an assessable component.

5.2.3 **Mid-Session and Final Examinations**

The mid-session exam will be held in teaching week 7. The date, time, and venue will be announced as soon as the room booking is finalised. Details of the final examination will be published in the provisional timetable scheduled for release on 11 May, and confirmed in the final timetable to be released on 1 Jun.

The format of the two examinations will be announced in class. You should expect questions of similar style and level of difficulty to the textbook questions, and to those asked in lectures, tutorials and assignments. The examination is aimed to test your understanding of the materials covered by the course.

The syllabus for the mid-session exam includes all lecture topics taught in weeks 1 to 5 only. For the final exam, the syllabus includes all lecture topics taught in weeks 6, and 8 to 13 only.
5.3 Other Student Responsibilities

5.3.1 Attendance at Classes
Students are expected to be regular and punctual in attendance at all lectures and tutorials. All classes commence 5 minutes after, and finish 5 minutes before, the scheduled hour. Lectures and tutorials form an integrated sequence of topics, with each week drawing and building upon previous topics. Therefore, failing to keep up to date with the lecture material or tutorial work will place you at a significant disadvantage.

5.3.2 Student Conduct and Behaviour
Students are expected to conduct themselves with consideration and respect for the needs of fellow students and teaching staff. This includes prompt arrival at classes and avoidance of disruptive behaviour. Included in disruptive behaviour are talking during lectures, the ringing and use of mobile phones and early departure without a reasonable excuse.

Students will be asked to show their student identity cards and leave the classroom if their behaviour affects the participation of others.

5.3.3 Keeping Informed
Students should take note of any announcements made in class, the course web page or via emails (see Section 8.2). Students will be deemed to have received these announcements.

5.3.4 Workload
Normal workload expectations for each degree are 25 – 30 hours per session per unit of credit. This course is allocated 6 units of credit. There are twelve lecture weeks and one revision week. In section 3, you are advised to spend an average of 10 hours per lecture week on class preparation, attendance, revision, and assignment. You are expected to spend the remaining time on exam preparation.

6. Student Resources

6.1 Prescribed Textbooks and Other References
The prescribed textbooks for this course are:

- Yip, H. (Feb 2004), Spreadsheet Applications to Securities Valuation and Investment Theories (to be available in the 1st week of Mar in the UNSW Bookshop)

Reference books and optional reading materials include
- Hull, J.C., Options, Futures & Other Derivatives, 4th or 5th edition, Prentice Hall
- A collection of newspaper articles and publications relevant to this course are available from the open reserve of the UNSW Library.

6.2 Lectures

6.2.1 Lecture Enrolment
You must enrol in one of the following lecture classes:

<table>
<thead>
<tr>
<th>Class no.</th>
<th>Day</th>
<th>Time</th>
<th>Location</th>
</tr>
</thead>
<tbody>
<tr>
<td>3208</td>
<td>Thu</td>
<td>13:00 - 15:00</td>
<td>Science Theatre</td>
</tr>
<tr>
<td>3354</td>
<td>Thu</td>
<td>17:00 - 19:00</td>
<td>BIOMED D</td>
</tr>
</tbody>
</table>
### 6.2.2 Lecture Program

<table>
<thead>
<tr>
<th>Wk</th>
<th>Topic</th>
<th>Recommended Reading</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Introduction and Bond Pricing</td>
<td>Jones Ch 7 p 187-195, 200-207; Yip S 2</td>
</tr>
<tr>
<td>2</td>
<td>Term Structure of Interest Rates</td>
<td>Jones Ch 8 p 196-200, 222-225; Yip S 4</td>
</tr>
<tr>
<td>3</td>
<td>After-tax Yield &amp; Duration</td>
<td>Jones Ch 7 p 207-213, Ch 8 p 234-239; Yip, S 3 &amp; 5</td>
</tr>
<tr>
<td>4</td>
<td>Payoff &amp; Profit/Loss Diagrams</td>
<td>Jones Ch 16 p 490-505, Appendix 16.A; Yip S 13</td>
</tr>
<tr>
<td>5</td>
<td>Black-Scholes Option Pricing Model</td>
<td>Jones Ch 16 p 505-515; Yip S14</td>
</tr>
<tr>
<td>6</td>
<td>Futures Valuation and Analysis</td>
<td>Jones Ch 17; Yip S 16</td>
</tr>
<tr>
<td>7</td>
<td>No lectures due to MS exam</td>
<td></td>
</tr>
<tr>
<td>8</td>
<td>The Efficient Frontier</td>
<td>Jones Ch 6 p 151-170; Yip S 6</td>
</tr>
<tr>
<td>9</td>
<td>Optimal Risky Portfolio &amp; Optimal Balanced Portfolio</td>
<td>Jones Ch 18 p 564-566, 570-549; Yip S 7</td>
</tr>
<tr>
<td>10</td>
<td>Capital Asset Pricing Model</td>
<td>Jones Ch 19 p 584-596; Yip S 8</td>
</tr>
<tr>
<td>11</td>
<td>The Single Index Model</td>
<td>Jones Ch 18 p 566-570, Jones Ch 19 p 596-599; Yip S 9</td>
</tr>
<tr>
<td>12</td>
<td>Performance Measures</td>
<td>Jones Ch 6 p 134-143, Jones Ch 21; Yip S 10</td>
</tr>
<tr>
<td>13</td>
<td>Efficient Market Hypothesis</td>
<td>Jones Ch 11; Yip S 12</td>
</tr>
<tr>
<td>14</td>
<td>Revision</td>
<td></td>
</tr>
</tbody>
</table>

### 6.2.3 Lecture Preparation

Attend all classes. Take notes. Participate by asking and answering questions. Always bring a hard copy of the lecture overheads to class. The files containing the overheads can be downloaded from the course web page. The lecture overheads are concise summaries of the underlying theories and applications. Study the recommended reading after each class to enhance your understanding and to broaden your knowledge. Also attempt the end of chapter problems in Jones (2003) and the revision questions in Yip (2004) to evaluate your understanding. Talk to the lecturer or tutors during their consultation hours if you encounter any problem.

### 6.3 Tutorials

#### 6.3.1 Tutorial Enrolment

You must enrol in a tutorial class via the tutorial allocation system (TAS). Try your best to **finalise the enrolment before the second week** when tutorials commence. If you encounter any technical problem, see the lab supervisor. If you have other enquiries, contact the tutor-in-charge.

You can check the time and location of tutorials from TAS, the notice board located outside on the School’s office on the 3rd floor of the Quadrangle Building, and/or the School’s website. Any changes to the list of tutorials will be announced in lectures and the course web page.

#### 6.3.2 Tutorial Program

<table>
<thead>
<tr>
<th>Wk</th>
<th>Topic</th>
<th>Related EXCEL and ACROBAT files</th>
<th>Tutorial questions</th>
</tr>
</thead>
<tbody>
<tr>
<td>2</td>
<td>Introduction and Bond Pricing:</td>
<td>BP.xls, BPdemo.pdf</td>
<td>Yip, S 2</td>
</tr>
<tr>
<td>3</td>
<td>Term Structure of Interest Rates</td>
<td></td>
<td>Yip, S 4</td>
</tr>
</tbody>
</table>
6.3.3 Tutorial Preparation
The tutorial questions are based on the discussion questions in Yip (2004). Most questions are related to the spreadsheet applications contained in the EXCEL files. The ACROBAT files are concise summaries to explain how finance theories are translated into spreadsheet applications. Full documentation of the spreadsheet applications can be found in the corresponding demonstration sections of Yip (2004). Download the EXCEL and ACROBAT files from the course web page. After completing your lecture preparation, study these files. Then meet with your team (see section 6.3.4) to prepare for the discussion questions (and presentation if your team is the lead team).

6.3.4 Tutorial Organisation
When you attend the first tutorial class, get to know your classmates and organise yourself into four teams of 4 to 6 persons. No more than four teams are allowed. Each team should submit a team list to the tutor by the 2nd tutorial held in week 3. The team list should include the student ID number and full name of all the members. The tutor will assign students randomly if the four required teams are still not formed voluntarily by week 3.

All tutorial presentations are based on the discussion questions in Yip (2004). For the Monday tutorial groups, the tutor will lead the discussion of the first two and the last tutorials held in weeks 2, 3 and 14. Each team will lead the delivery of two of the remaining eight tutorials in weeks 4 to 6, and 9 to 13. As no tutorials are held on Monday, 26 April (a public holiday) in week 8, affected students/teams may attend another tutorial in that week. For the Tuesday, Wednesday and Thursday tutorial groups, the tutor will lead the discussion of the first and last two tutorials held in weeks 2, 3, 13 and 14. Each team will lead the delivery of two of the remaining eight tutorials in weeks 4 to 6, and 8 to 12. For the Friday tutorial groups, the tutor will lead the discussion of the first two and the last tutorials held in weeks 2, 3 and 14. Each team will lead the delivery of two of the remaining eight tutorials in weeks 4 to 5, and 8 to 13. As no tutorials are held on Friday, 9 April (a public holiday) in week 6, affected students/teams may attend another tutorial in that week.

The tutor will inform each team of the allocation of tutorial responsibility in the 2nd tutorial when the team list is received.
6.3.5 Tutorial Responsibility
All teams are expected to (i) meet regularly, (ii) share the workload, (iii) be fully prepared, punctual and willing to participate in all tutorial and team meetings.

The lead team is also expected to (i) lead the discussion, (ii) get the other teams involved in answering the questions, (iii) send one copy of the answers to the discussion questions to the tutor by email from an UNSW student account by 9 am on Monday in the same week of tutorial delivery, and (iv) distribute a hard copy of the same answers to the tutor and each of the other teams in the tutorial. All submissions must have a cover page containing the course code and title, information on tutorial class number, time and location, the names of the tutor and team members, and the corresponding week and topic.

The other teams are also expected to get involved by asking questions, providing comments to the suggested answers, and judging the quality of presentation.

Students are expected to stay in the same team for the entire semester. However, if you are not happy in your team, you may join another team with the permission of the tutor and all the members of the recipient team. Similarly, if a team is unhappy about a member, the team may divorce the member with the permission of the tutor and all the members of the recipient team.

The tutor will oversee all discussions and correct all misunderstandings. All teams should note the corrections in class. No official (hard or soft) copies of the solutions will be provided. If you have any doubts, you can always seek clarification from the tutor during or after class.

6.3.6 Tutorial Presentation
All tutorial classrooms have IT facilities. The lead team may use the whiteboard, overhead projector, document reader, and/or personal computer to enhance the presentation.

6.3.7 Tutorial Assessment
Each tutorial delivery is worth five marks to the lead team, 2 marks for presentation and 3 marks for the submitted answers. The other teams will judge the presentation and award the marks in accordance with a marking scheme (to be provided in due course). The tutor will take the average of the marks awarded by the other teams and may change the mark at his/her discretion if it does not reflect true performance. The tutor will mark the submitted answers and award the marks accordingly. All team members will receive the same mark as that awarded to the team.

6.4 PC Laboratory Facilities
To allow individual students or teams to (i) study the spreadsheet applications, (ii) complete the tutorial preparation, and/or (iii) work on their assignments, the following PC labs are available and no formal registration is needed:

<table>
<thead>
<tr>
<th>Lab</th>
<th>Day</th>
<th>Time</th>
<th>Location</th>
</tr>
</thead>
<tbody>
<tr>
<td>18a</td>
<td>TUE</td>
<td>15.00 – 18.00</td>
<td>lab 5 QUAD 1031</td>
</tr>
<tr>
<td>19a</td>
<td>WED</td>
<td>12.00 – 15.00</td>
<td>lab 4 QUAD 1035</td>
</tr>
<tr>
<td>20a</td>
<td>THU</td>
<td>15.00 – 18.00</td>
<td>JG Lab 1 LG8</td>
</tr>
</tbody>
</table>

6.5 On-Line Links
Check the course web page regularly for up-to-date information on the subject including staff consultation hours, announcements, lecture materials, assignment, EXCEL spreadsheets and ACROBAT files for the tutorial program. You may also find the following sites useful:

- [www.student.unsw.edu.au](http://www.student.unsw.edu.au) UNSW homepage for students
- [www.library.unsw.edu.au](http://www.library.unsw.edu.au) UNSW library
- [admin.fee.unsw.EDU.AU/tassr](http://admin.fee.unsw.EDU.AU/tassr) For access to your course marks
6.6 Staff Consultation
All staff teaching this course will be available for consultation for specified hours during the fourteen teaching weeks. We may provide extra hours to assist your preparation for the mid-session and final exams. If you wish to see a particular staff member outside of consultation times, you need to make an appointment.

Do not expect staff to answer any assignment questions prior to the submission deadline unless the question needs clarification. Prompt feedback will be provided once marking is done.

7. Teaching Staff

Lecturer         Room    Contact no.  Email
Dr Henry Yip (Lecture-in-charge) QUAD 3062 9385-5870  h.yip@unsw.edu.au

8. Administrative Matters

8.1 Academic Misconduct
Go to http://www.fce.unsw.edu.au/current_students/responsibilities.shtml#misconduct for information on academic misconduct. You are reminded that the consequences of academic misconduct range from a reduction in marks, failure in the course and/or exclusion from the University for a period from one session to permanent exclusion.

8.2 E-mail
E-mail is not a media for proper learning. Do not expect staff to reply to e-mails which request extensive or substantive answers. These questions are best raised in tutorials or consultation times.

Teaching staff may answer appropriate e-mails relevant to the course during their specified consultation hours. University regulations suggest that students who wish to communicate with academic staff via email must use a valid student account. This means that academic staff will not respond to e-mails coming from other accounts.

8.3 Special Consideration and Supplementary Assessment
Go to http://banking.web.unsw.edu.au for the link to information on special consideration. Failure to observe the suggested procedures would lead to NO consideration.

8.4 Release of Results
Students can access their tutorial, assignment and mid-session exam marks via a link in the course web page. The release of final mark and grade is the responsibility of the University.