

THE UNIVERSITY OF
NEW SOUTH WALES



Faculty of Commerce and Economics
School of Banking & Finance

FINS2624
PORTFOLIO MANAGEMENT

COURSE OUTLINE
SESSION 2, 2005

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1. COURSE STAFF

Lecturers	Room	Contact no.	Email
Henry Yip (lecturer in charge)	QUAD 3062	938-55870	h.yip@unsw.edu.au
David Feldman	QUAD 3055	938-55748	d.feldman@unsw.edu.au

Tutors	Room	Contact no.	Email
Yosuke Hall (tutor in charge)	QUAD 3054	938-57865	y.hall@unsw.edu.au
Daniel Shakenovsky	QUAD 3054	938-57865	danshak@unsw.edu.au
King Tan	QUAD 3054	938-57865	king.tan@unsw.edu.au

Consultation times for course staff are listed in WebCT.

1.1 Communication with Staff

Students may contact staff outside the class sessions during the consultation times posted to WebCT. If you wish to see a particular staff member outside of consultation times, you need to make an appointment.

University regulations indicate that students who wish to communicate with academic staff via e-mail must use a valid UNSW student account. This means that academic staff will not respond to e-mails coming from other accounts.

Students may contact staff by e-mails regarding course administration matters. Always include your telephone number when using e-mails. E-mail is not an appropriate medium for 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.

Do not expect staff to answer any assignment questions prior to the submission deadline unless the questions need clarification. Once the marking is done, usually the week following the submission, individual students or the entire student team are strongly encouraged to see the tutors for feedback on their work.

2. INFORMATION ABOUT THE COURSE

2.1 Teaching times and Locations

There are three streams of weekly 2-hour lectures:

Class no.	Day	Time	Location
3247	Tue	10:00 - 12:00	TBA, check timetable or WebCT
3266	Tue	16:00 - 18:00	OMB 149
3267	Wed	10:00 - 12:00	CE G1

Tutorials commence in week 2 and are held weekly. The list of tutorial times is available via the School's web page at: <http://www.banking.unsw.edu.au/>

2.2 Units of Credit

This course is allocated 6 units of credit.

2.3 Parallel teaching in the course

There is no parallel teaching (UG/PG) involved in this course.

2.4 Relationship of this course to other course offerings

Portfolio Management is one of the four core courses in finance. This course extends and applies your knowledge in (i) financial mathematics acquired in FINS1613 and/or ECON1202 to price bonds; (ii) portfolio theory acquired in FINS1613 to rank and select portfolios; (iii) linear programming and calculus acquired in ECON1202 to determine the composition and attributes of a portfolio; (iv) frequency distribution, measures of central tendency, mean and dispersion, normal distribution, point estimation of population parameters and confidence intervals acquired in ECON1203 to appreciate the meaning of investment risk, expected return and the Black-Scholes option pricing model; (v) hypothesis testing, t-distribution, and bivariate regression acquired in ECON1203 to study the single index model; and (vi) spreadsheet computer programs in ECON1202 to gain hands-on experience in spreadsheet applications developed for the first half of the tutorial program.

This course also covers the assumed knowledge required by other finance courses in the area of (i) funds management taught in FINS3640 and FINS3641; (ii) real estate finance in FINS3633; and (iii) risk management in FINS3631, FINS3635 and FINS3636.

2.5 Approach to learning and teaching

For the first half of the course taught by Henry Yip in weeks 1 to 6, students are expected and strongly encouraged to learn from a disciplined approach that entails

- Regular class attendance to explore new concepts/theories and their applications;
- Active class participation by engaging in discussions, taking notes, asking and answering questions;
- Timely revision of the materials taught to stay ahead and identify problematic issues to be resolved by staff and/or peer consultation;
- Studying the prescribed readings to gain deeper understanding of the materials taught;
- Preparation for tutorial and assignment work to gain hands-on experience and to put theories into practice;
- Regular staff consultation for advice and feedback.

Most importantly, students are expected to

- Understand rather than memorise;
- Apply rather than regurgitate.

In order to obtain the potential benefit from the course the second half of the course taught by Associate Professor David Feldman in weeks 7, 9-14, fulfil the course requirements, and succeed in the final exam, students are required to follow the points below.

1. Read the respective textbook chapters ***before*** class lectures. This will make the class material easier to follow and comprehend.
2. Attend class lectures (arrive on time).
3. Actively participate in class: answer the instructors' questions, and ask your own questions.

4. After class lectures, study the lecture material, preferably in groups, and solve the homework problems.

If issues from last lectures are still not clear, ask your questions or email them to the tutors or, if necessary, the instructor.

3. COURSE AIMS AND OUTCOMES

3.1 Course Aims

The intention of the first half of the course is to study

- The pricing of fixed-interest securities;
- The theories of the term structure;
- The duration concept;
- Strategies involving options;
- The Black-Scholes (1973) option pricing model.

The goal of the second part of the course is to establish perspectives, approaches, tools and methods of independent thinking, analysis, and problem solving. We will apply these to essential asset pricing topics, most of them conceived by Nobel Laureates. Topics will include utility theory, portfolio theory, arbitrage pricing, equilibrium pricing, security prices' informational efficiency, and performance measurement.

3.2 Student Learning Outcomes

By the end of the first half of the course, students should be able to

- Compute and distinguish the settlement price of a Commonwealth government bond and the price that is quoted to the market;
- Determine the implication of taxation on the cash flows of a bond and on the choice of bonds with different coupon rates;
- Identify the factors that affect the shape of the yield curve;
- Explain the choice of bonds with different maturities in the context of the expectations and liquidity premium hypotheses;
- Apply the duration concept to explain the selection of bonds in different market conditions;
- Make recommendations on the strategic use of options to improve the risk return profile of an investment in anticipation of different market conditions;
- Explain the formulation of the Black-Scholes (1973) option pricing model;
- Compute the theoretical value of a call and a put;
- Compute and distinguish the time value and intrinsic value of an option;
- Identify an arbitrage opportunity and the transactions to take advantage of the opportunity.

At the completion of the second half of the course students should have improved their ability to

1. Independently think, define, analyze, and solve problems.
2. Combine analytical skills, quantitative skills, economic knowledge, and intuition to identify, define learn, analyze, and implement financial decisions.
3. Independently work with and learn new material from resources, such as textbooks.

3.3 Teaching Strategies

For the first half of the course, 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 materials or tutorial work will place you at a significant disadvantage.

We encourage critical thinking, deep and positive learning. We use analogies, intuition, stories, and theoretical and real life examples to aid student understanding and appreciation of the significance and potential applications of finance theories and concepts. Concepts questions are also provided in lectures to stimulate critical thinking and engage class participation and interaction with the lecturer. For each and every lecture, students are expected to

- Bring a hard copy of the lecture slides (available from WebCT) to class;
- Study the recommended readings and lecture slides after each class to refresh and reinforce your understanding;
- Attempt all the revision questions in Yip (2005) and compare the answers to the suggested solutions (at the end of the book) for self-evaluation;
- See the lecturer or tutors during their consultation hours if further clarification regarding the lecture materials and suggested approach to the questions is needed.

The tutorial program is designed to apply, extend and reinforce the materials taught in lectures. It covers a set of discussion questions from Yip (2005), some of which requires the usage of spreadsheet applications to enable more effective and efficient analyses. Tutorials are also structured to foster a positive learning environment where ideas are exchanged and discussed to steer students to understand the correct approach to each question, rather than just knowing the relatively unimportant final answer. In the first tutorial, students will get to know one another through some class bonding exercises before forming into teams of three or four students. The purpose of student teams is to offer peer support on learning, revision, tutorial and assignment work. For each and every tutorial, students are expected to be fully prepared by either individually or preferably as a team,

- Study the EXCEL and ACROBAT files available from WebCT or the CD in Yip (2005) before the tutorial;
- Attempt all the tutorial questions drawn from the discussion questions in Yip (2005) before the tutorial (see section 9);
- Bring a hard copy of individual or team work to the tutorial;
- Actively participating in asking and answering the tutorial questions.

While unprepared students who just come to tutorial classes to copy down the solutions will learn nothing, students who come prepared for the discussion and

feedback will consolidate their knowledge and understand the right approach to the questions.

Students are taught to learn by understanding and application, not memorisation and regurgitation. Solutions to tutorial questions are not provided to ensure that students participate actively in class to confirm their understanding, learn from their mistakes and receive feedback on the correct approach to the questions. Students may see the lecturer and tutors during their consultation hours if further clarification regarding the tutorial questions is needed

Note that the EXCEL files contain spreadsheet applications relevant to the discussion questions. Students are expected to learn the spreadsheet applications at their own pace by reading the corresponding demonstration sections of Yip (2005), which provide full documentation to the construction and usage of the spreadsheet applications. The ACROBAT files are concise summaries explaining how the finance theories introduced in the background reading sections of Yip (2005) are translated into spreadsheet applications.

For the second half of the course, class lectures will define, analyze and resolve issues. Tutorials will conduct exercise sessions of problem solving. Students will study the book, attend lectures and tutorials, and solve problems from the book. Students will study from the book sections that will not be intensively covered in class lectures.

4. STUDENT RESPONSIBILITIES AND CONDUCT

4.1 Workload

It is expected that you will spend at least ***ten hours*** per week studying this course. This time should be made up of reading, research, working on exercises and problems, and attending classes. In periods where you need to complete assignments or prepare for examinations, the workload may be greater.

Over-commitment has been a cause of failure for many students. You should take the required workload into account when planning how to balance study with employment and other activities.

4.2 Attendance

Your regular and punctual attendance at lectures and tutorials is expected in this course. University regulations indicate that if students attend less than eighty per cent of scheduled classes they may be refused final assessment.

4.3 General Conduct and Behaviour

You are expected to conduct yourself with consideration and respect for the needs of your fellow students and teaching staff. Conduct which unduly disrupts or interferes with a class, such as ringing or talking on mobile phones, is not acceptable and students may be asked to leave the class. More information on student conduct is available at: www.my.unsw.edu.au

4.4 Keeping informed

You should take note of all announcements made in lectures, tutorials or on the course web site. From time to time, the University will send important announcements to your university e-mail address without providing you with a paper copy. You will be deemed to have received this information.

5. LEARNING ASSESSMENT

5.1 Formal Requirements

In order to pass this course, you must:

- Achieve a composite mark of at least 50;
- Attempt all assessment tasks.

5.2 Assessment Details

The first half of the course will be assessed as follows:

Tutorial	Assignment	Mid-session exam	TOTAL
7.5%	5%	37.5%	50%

Tutorial

The purpose of tutorial assessment is to reward students who are fully prepared (see section 3.3 on tutorial preparation), willing to share, contribute and learn from others. Marks are awarded according to the above criteria, the level of student understanding of the tutorial questions perceived by the tutor, and attendance. To justify the marks allocated towards the level of preparation and participation, tutors may collect tutorial work and pick students at random to answer the questions.

Assignment

The purpose of the assignment is to encourage team work, peer support, and application of knowledge acquired from lectures and tutorials. The assignment will be posted to WebCT in due course. The breakdown of marks to individual questions will be provided in the assignment. Marks are awarded according to the accuracy and completeness of the answers, and whether reporting guidelines such as the limits on the number of words and pages are observed. If every member contributes equally to the assignment, every member will receive the mark awarded to the assignment. If the contribution is uneven, then the individual members with below average contributions will receive a scaled down mark, and those with average or above average contributions will receive the awarded mark, i.e., not a scaled up mark.

Student teams are formed in tutorials and each student team must complete and submit one assignment to the tutor during the allocated tutorial in week 6. Students should never place the assignment under the lecturer's or tutor's door. All student team submissions must have a standardised cover page containing (i) the course code and title, (ii) tutorial time and location, (iii) names of your tutor and team members, and (iv) percentage contribution by each team member. The standardised cover page is available from WebCT under the "Assignment" folder. Further details on assignment format are provided in the assignment.

Late submission is permitted only in exceptional circumstances. More than sufficient time has been allowed for student teams to complete the assignment. If a team fails to submit an assignment during the allocated tutorial in week 6, the team members are deemed to have made an unsatisfactory attempt to an assessable component.

Mid-Session Exam

The mid-session exam will be held during lecture times in teaching week 8. The time and location of the exam are lecture specific. Students must note their lecture enrolment and attend the corresponding exam. Students who wish to sit for the exam at another lecture time must have a legitimate reason and contact Henry Yip to obtain prior approval.

The format and mark distribution of the examination will be announced in class. Students should expect questions of similar style and level of difficulty to those asked in lectures, tutorials and assignment. The examination is aimed at testing your understanding of the materials covered by the course, NOT how much you can memorise and regurgitate the materials.

The syllabus for the mid-session exam includes the lecture topics taught by Henry Yip in weeks 1 to 6 only.

The second half of the course will be assessed as follows:

Tutorials/Homework	Attendance	Final Examination	TOTAL
5%	0%	45%	50%

5.3 Special Consideration and Supplementary examinations

UNSW policy and process for Special Consideration applies (see <https://my.unsw.edu.au/student/atoz/SpecialConsideration.html>). Specifically:

- Applications for special consideration (including supplementary examinations) must go through UNSW Central administration (within 3 working days of the assessment to which it refers) – applications will **not** be accepted by teaching staff;
- Applying for special consideration does not automatically mean that you will be granted additional assessment or that you will be awarded an amended result;
- If you are making an application for special consideration (through UNSW Central Administration) please notify your Lecturer in Charge;
- Please note: a register of applications for Special Consideration is maintained. History of previous applications for Special Consideration is taken into account when considering each case.

School policy and process for Special Consideration also applies (see http://www2.banking.unsw.edu.au/nps/servlet/portalservice?GI_ID=System.LoggedOutInheritableArea&maxWnd=_Current_SpecialConsideration). Specifically:

- Copies of the application forms and supporting documentation must also be given to the lecturers-in-charge;
- If supplementary examinations are awarded to you, you must be available to write the examinations as scheduled.

6. ACADEMIC HONESTY AND PLAGIARISM

The University regards plagiarism as a form of academic misconduct, and has very strict rules regarding plagiarism. For full information regarding policies, penalties and information to help you avoid plagiarism see: <http://www.lc.unsw.edu.au/plagiarism/index.html>

Plagiarism is the presentation of the thoughts or work of another as one's own.* Examples include:

- direct duplication of the thoughts or work of another, including by copying work, or knowingly permitting it to be copied. This includes copying material, ideas or concepts from a book, article, report or other written document (whether published or unpublished), composition, artwork, design, drawing, circuitry, computer program or software, web site, Internet, other electronic resource, or another person's assignment without appropriate acknowledgement;
- paraphrasing another person's work with very minor changes keeping the meaning, form and/or progression of ideas of the original;
- piecing together sections of the work of others into a new whole;
- presenting an assessment item as independent work when it has been produced in whole or part in collusion with other people, for example, another student or a tutor; and,
- claiming credit for a proportion a work contributed to a group assessment item that is greater than that actually contributed.†

Submitting an assessment item that has already been submitted for academic credit elsewhere may also be considered plagiarism.

The inclusion of the thoughts or work of another with attribution appropriate to the academic discipline does **not** amount to plagiarism.

Students are reminded of their Rights and Responsibilities in respect of plagiarism, as set out in the University Undergraduate and Postgraduate Handbooks, and are encouraged to seek advice from academic staff whenever necessary to ensure they avoid plagiarism in all its forms.

The Learning Centre website is the central University online resource for staff and student information on plagiarism and academic honesty. It can be located at:

www.lc.unsw.edu.au/plagiarism

The Learning Centre also provides substantial educational written materials, workshops, and tutorials to aid students, for example, in:

- correct referencing practices;
- paraphrasing, summarising, essay writing, and time management;
- appropriate use of, and attribution for, a range of materials including text, images, formulae and concepts.

Individual assistance is available on request from The Learning Centre.

Students are also reminded that careful time management is an important part of study and one of the identified causes of plagiarism is poor time management. Students should allow sufficient time for research, drafting, and the proper referencing of sources in preparing all assessment items.

* Based on that proposed to the University of Newcastle by the St James Ethics Centre. Used with kind permission from the University of Newcastle

† Adapted with kind permission from the University of Melbourne.

7. STUDENT RESOURCES

7.1 Course Resources

The following resources are available to students:

- **Prescribed texts (available in the bookshop and library) –**
 - Yip, H., 2005, Spreadsheet Applications to Securities Valuation and Investment Theories, John Wiley & Sons
 - Bodie, Z., A. Kane and A. Marcus, 2004, Essentials of Investments, 5th edition, Irwin McGraw Hill
- **Additional materials provided in WebCT**
 - Lecture notes
 - Spreadsheet applications
 - Assignment – questions, submission cover page, and source data
 - Discussion forum – for students to raise questions and share experience among yourselves
- **Recommended Internet sites and Newspaper clippings available in the library**
 - Australian Stock Exchange - www.asx.com.au
 - Reserve Bank of Australia - www.rba.gov.au
 - Australia Bureau of Statistics - www.abs.gov.au
 - Newspaper clippings for FINS2624, UNSW Library, Level 2 MyCourse (Reserve) Desk, call no: WP/0260/(1)

7.2 Other Resources, Support and Information

The University and the Faculty provide a wide range of support services for students, including:

- **Learning and study support**
 - FCE Education Development Unit (<http://education.fce.unsw.edu.au>)
 - UNSW Learning Centre (<http://www.lc.unsw.edu.au>)
 - EdTec – WebCT information (<http://www.edtec.unsw.edu.au>)
- **Counselling support** - <http://www.counselling.unsw.edu.au>
- **Library training and support services** - <http://info.library.unsw.edu.au>
- **Disability Support Services** – Those students who have a disability that requires some adjustment in their teaching or learning environment are encouraged to discuss their study needs with the Course Coordinator or the Equity Officer (<http://www.equity.unsw.edu.au/disabil.html>). Early notification is essential to enable any necessary adjustments to be made.

In addition, it is important that all students are familiar with University policies and procedures in relation to such issues as:

- **Examination procedures** and advice concerning illness or misadventure <https://my.unsw.edu.au/student/academiclife/assessment/examinations/examinationrules.html>

- **Occupational Health and Safety** policies and student responsibilities; <http://www.riskman.unsw.edu.au/ohs/Policies%20&%20Procedures/UNSW%20OHS%20Accountability.pdf>

8. CONTINUAL COURSE IMPROVEMENT

Each year feedback is sought from students and other stakeholders about the courses offered in the School and continual improvements are made based on this feedback. UNSW's Course and Teaching Evaluation and Improvement (CATEI) Process (http://www.ltu.unsw.edu.au/ref4-5-1_catei_process.cfm) is one of the ways in which student evaluative feedback is gathered. Significant changes to courses and programs within the School are communicated to subsequent cohorts of students.

The tutorial program for example, has undergone a number of significant changes to reflect the constructive feedback received from you and the tutors. Staffs have also taken the initiative to provide prompt individual/team feedback on assignment and mid-session examination.

9. COURSE SCHEDULE

Lecture Program for the first half of the course

Wk	Topic	Relevant Readings	Lecturer
1	Introduction & after-tax yield to maturity	Course outline; Yip S1 & 3	Henry Yip
2	Bond Pricing	Yip S2	Henry Yip
3	Term Structure of Interest Rates	Yip S4	Henry Yip
4	Duration & Introduction to Stock Options	Yip S5 & 13	Henry Yip
5	Option strategies and Black-Scholes Option Pricing Model	Yip S13& 14	Henry Yip
6	Black-Scholes Option Pricing Model continued	Yip S14	Henry Yip
8	No lectures – MS exam week		Henry Yip

Tutorial Program for the first half of the course

Wk	Topic	Relevant EXCEL and ACROBAT files	Tutorial questions from Yip
2	Introduction; Class Bonding Exercises; Spreadsheet application demo	ATYTM.xls, ATYTMdemo.pdf	
3	After-tax YTM & Bond Pricing	ATYTM.xls, ATYTMdemo.pdf, BP.xls, BPdemo.pdf	S3: DQ A – C, S2, DQ A – E
4	Term Structure of Interest Rates		S4, DQ A – E
5	Duration	DURATION.xls, DURATIONdemo.pdf	S5: DQ A – G
6	Payoff & Profit/Loss Diagrams	PAYOFF.xls, PAYOFFdemo.pdf	S13: DQ A – D

7	Black-Scholes Model	BSMODEL.xls, BSMODELdemo.pdf	S14: DQ A – F
8	No tutorials - MS exam week		

Lecture Program for the second half of the course

Wk	Topic	Relevant Readings	Lecturer
7, 9-14	Elements of Investments (Independent Reading)	BKME1-4	A/Prof. David Feldman
7	Review: Time Value of Money; Utility Theory	CW4	A/Prof. David Feldman
9	Utility Theory; Historical Returns	CW4, BKME5	A/Prof. David Feldman
10	Portfolio Theory	BKME6	A/Prof. David Feldman
11	Portfolio Theory; CAPM	BKME6-7	A/Prof. David Feldman
12	CAPM	BKME7	A/Prof. David Feldman
13	Informational Efficiency	BKME8	A/Prof. David Feldman
14	Portfolio Performance	BKME20	A/Prof. David Feldman

Tutorial Program for the second half of the course

Wk	Topic	Tutorial questions
9	Time Value of Money; Elements of Investments	BKME1-4
10	Portfolio Theory	BKME5-6
11	Portfolio Theory	BKME6
12	CAPM	BKME7
13	CAPM	BKME7
14	Portfolio Performance	BKME20

Bodie, Z., Kane, A. and A. Marcus, 2005, *Essentials of Investments*, 5th Edition, McGraw-Hill, New York. **(BKME)**

Bodie, Z., Kane, A. and A. Marcus, 2005, *Investments*, 6th Edition, McGraw-Hill, New York.

Copeland, T. E., J. F. Weston, and K. Shastri, 2005, "Financial Theory and Corporate Policy", 4th edition, Pearson Addison Wesley. **(CW)**

While attendance is generally required, attendance on week 7, the first session of the 2nd half of the course, is absolutely essential!