UNSW Course Outline

MFIN6214 Financial Theory and Policy - 2024

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General Course Information

Course Code : MFIN6214
Year : 2024
Term : Term 2
Teaching Period : T2
Is a multi-term course? : No
Faculty : UNSW Business School
Academic Unit : School of Banking and Finance
Delivery Mode : In Person
Delivery Format : Standard
Delivery Location : Kensington
Campus : Sydney
Study Level : Postgraduate
Units of Credit : 6

Useful Links

Handbook Class Timetable

Course Details & Outcomes

Course Description

The course develops the main theoretical foundations of finance, including investment decision making, utility theory, portfolio theory, equilibrium asset pricing, arbitrage asset pricing, the term structure of interest rates, option pricing theory, derivatives pricing, asset prices informational

efficiency, asymmetric and incomplete information, agency theory, performance measurement, corporate governance, and corporate finance topics. The course constructs the main developments in finance theory over the past 60 years, investigates gaps in current finance practices and investigates the need for future developments. The course provides the theoretical foundations for subsequent finance study within the Master of Finance degree.

Course Aims

The goal of the course is to design perspectives, approaches, tools and methods of independent thinking, analysis, and problem solving. We will apply these to essential finance theory and applications, most of them conceived by Nobel Laureates.

In addition, the course has two broad and inter-related aims: (i) to formulate the essence of finance theory and how various financial aspects fit together; and (ii) to provide an intermediate treatment of some issues in asset pricing and corporate financial policy. These objectives help future finance executives and scholars keep up to date with the latest knowledge on the topic.

Relationship to Other Courses

The goal of the course is to design perspectives, approaches, tools and methods of independent thinking, analysis, and problem solving. We will apply these to essential finance theory and applications, most of them conceived by Nobel Laureates.

This is a 'core' course within the Master of Finance program (see the handbook for specific details of MFIN courses). While the other core courses study financial institutions and empirical issues in finance, this course provides essential theoretical foundation for financial decision making. Most empirical issues and some institutional ones, studied in the other Master of Finance program courses, build on the theories studied in this course.

Course Learning Outcomes

Course Learning Outcomes	Program learning outcomes
CLO1 : Construct what is finance, the role of financial markets, historical returns, indexing, decision under uncertainty, portfolio theory, arbitrage and equilibrium asset pricing, term structure of interest rates, agency theory/incentives, incomplete/ asymmetric information, performance measurement, derivative assets.	• PLO1 : Business Knowledge
CLO2 : Students will define and address finance problems, and propose effective evidence-based solutions, through the application of rigorous analysis, critical thinking, and problem solving.	• PLO2 : Problem Solving
CLO3 : Students will harness, manage and communicate finance information effectively using multiple forms of communication across different channels. Students will communicate ideas in a succinct and clear manner.	• PLO3 : Business Communication
CLO4 : Students will interact and collaborate effectively with others to achieve a common business purpose, fulfil assignment, and the presentation project, and will reflect critically on the process and the outcomes.	• PLO4 : Teamwork

Course Learning Outcomes	Assessment Item
CLO1 : Construct what is finance, the role of financial markets, historical returns, indexing, decision under uncertainty, portfolio theory, arbitrage and equilibrium asset pricing, term structure of interest rates, agency theory/ incentives, incomplete/asymmetric information, performance measurement, derivative assets.	• Class Participation and Weekly Problems • Quiz • Final Assessments
CLO2 : Students will define and address finance problems, and propose effective evidence-based solutions, through the application of rigorous analysis, critical thinking, and problem solving.	• Class Participation and Weekly Problems • Quiz • Final Assessments
CLO3 : Students will harness, manage and communicate finance information effectively using multiple forms of communication across different channels. Students will communicate ideas in a succinct and clear manner.	• Class Participation and Weekly Problems • Quiz • Final Assessments
CLO4 : Students will interact and collaborate effectively with others to achieve a common business purpose, fulfil assignment, and the presentation project, and will reflect critically on the process and the outcomes.	• Class Participation and Weekly Problems • Final Assessments

Learning and Teaching Technologies

Moodle - Learning Management System

Learning and Teaching in this course

The course creates the theoretical underpinnings of modern finance and its applications. The course emphasizes fundamental understanding and full construction of methods and results of finance theory. This will be done in class and with students as an integral part of this process. The course can be viewed as a series of questions and challenges to which students will give answers.

In order to obtain the potential benefit from the course, fulfill the course requirements, and succeed in the exams, assignments, and projects, students are required to follow the points below.

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

The rational for the above suggestions and requirements is following the above points is necessary to achieve the learning outcomes specified in Section 2.5 above.

Assessments

Assessment Structure

Assessment Item	Weight	Relevant Dates	Program learning outcomes
Class Participation and Weekly Problems Assessment Format: Individual	10%	Start Date: Week 1 Due Date: Week 10	• PLO1 : Business Knowledge • PLO2 : Problem Solving • PLO3 : Business Communication • PLO4 : Teamwork
Quiz Assessment Format: Individual	35%	Start Date: See detailed assessment description Due Date: See detailed assessment description	• PLO1 : Business Knowledge • PLO2 : Problem Solving • PLO3 : Business Communication
Final Assessments Assessment Format: Individual	55%	Start Date: Final Exam Period Due Date: Final Exam Period	• PLO1 : Business Knowledge • PLO2 : Problem Solving • PLO3 : Business Communication • PLO4 : Teamwork

Assessment Details

Class Participation and Weekly Problems

Assessment Overview

Following each class, students will need to solve assigned homework. They may need to upload their answers on Moodle for possible marking.

Contribution to Class lectures is measured by active and frequent participation in the class academic discourse, and does not require “saying the right things,” or “giving correct answers.”

Assesses: PLO1 PLO2 PLO3 PLO4

Course Learning Outcomes

- CLO1 : Construct what is finance, the role of financial markets, historical returns, indexing, decision under uncertainty, portfolio theory, arbitrage and equilibrium asset pricing, term structure of interest rates, agency theory/incentives, incomplete/asymmetric information, performance measurement, derivative assets.
- CLO2 : Students will define and address finance problems, and propose effective evidence-based solutions, through the application of rigorous analysis, critical thinking, and problem solving.

- CLO3 : Students will harness, manage and communicate finance information effectively using multiple forms of communication across different channels. Students will communicate ideas in a succinct and clear manner.
- CLO4 : Students will interact and collaborate effectively with others to achieve a common business purpose, fulfil assignment, and the presentation project, and will reflect critically on the process and the outcomes.

Detailed Assessment Description

Questions related to either course contents or practice questions are largely enouraged to be asked and solved during lecture, in the benefit of others who share the same question.

Submission notes

Attendance will be recorded per lecture

Assignment submission Turnitin type

Not Applicable

Quiz

Assessment Overview

All Quizzes are comprehensive with respect to all the material that was covered in the course up to the Quiz, including additional topics assigned by the instructor for students' self-study, assigned readings, and related topics.

Assesses: PLO1 PLO2 PLO3

Course Learning Outcomes

- CLO1 : Construct what is finance, the role of financial markets, historical returns, indexing, decision under uncertainty, portfolio theory, arbitrage and equilibrium asset pricing, term structure of interest rates, agency theory/incentives, incomplete/asymmetric information, performance measurement, derivative assets.
- CLO2 : Students will define and address finance problems, and propose effective evidence-based solutions, through the application of rigorous analysis, critical thinking, and problem solving.
- CLO3 : Students will harness, manage and communicate finance information effectively using multiple forms of communication across different channels. Students will communicate ideas in a succinct and clear manner.

Detailed Assessment Description

The mid-term quiz will test upon lecture materials until the middle of the term. Students are expected to go through all the course materials, assigned reading and related topics that will be testable.

Submission notes

Online

Assignment submission Turnitin type

This is not a Turnitin assignment

Final Assessments

Assessment Overview

The final assessments will assess all the material taught during the course, including additional topics assigned by the instructor for students' self-study, assigned readings, and related topics.

A major part of the assessment will be the final exam and the remaining part can possibly be a project, which could be done individually or by a team.

Assesses: PLO1 PLO2 PLO3 PLO4

Course Learning Outcomes

- CLO1 : Construct what is finance, the role of financial markets, historical returns, indexing, decision under uncertainty, portfolio theory, arbitrage and equilibrium asset pricing, term structure of interest rates, agency theory/incentives, incomplete/asymmetric information, performance measurement, derivative assets.
- CLO2 : Students will define and address finance problems, and propose effective evidence-based solutions, through the application of rigorous analysis, critical thinking, and problem solving.
- CLO3 : Students will harness, manage and communicate finance information effectively using multiple forms of communication across different channels. Students will communicate ideas in a succinct and clear manner.
- CLO4 : Students will interact and collaborate effectively with others to achieve a common business purpose, fulfil assignment, and the presentation project, and will reflect critically on the process and the outcomes.

Detailed Assessment Description

The final exam is comprehensive with respect to all the material that was covered in the course up to the exam, including additional topics assigned by the instructor for students' self-study, assigned readings, and related topics.

Submission notes

Online

Assignment submission Turnitin type

This is not a Turnitin assignment

General Assessment Information

As a student at UNSW you are expected to display academic integrity in your work and interactions. Where a student breaches the UNSW Student Code with respect to academic integrity, the University may take disciplinary action under the Student Misconduct Procedure. To assure academic integrity, you may be required to demonstrate reasoning, research and the process of constructing work submitted for assessment.

To assist you in understanding what academic integrity means, and how to ensure that you do comply with the UNSW Student Code, it is strongly recommended that you complete the Working with Academic Integrity module before submitting your first assessment task. It is a free, online self-paced Moodle module that should take about one hour to complete.

Grading Basis

Standard

Requirements to pass course

In order to pass this course students must:

• Achieve a composite mark of at least 50 out of 100

• Engage actively in course learning activities and attempt all assessment requirements

• Meet any additional requirements specified in the assessment details

• Meet the specified attendance requirements of the course (see Schedule section)

Course Schedule

Teaching Week/Module	Activity Type	Content
Week 1 : 27 May - 2 June	Lecture	Risk aversion and choice under uncertainty • Risk and lotteries • The expected utility theory • The risk premium
Week 2 : 3 June - 9 June	Lecture	Risk preferences and stochastic dominance • Understanding risk aversion • The mean-variance criterion • Stochastic dominance
Week 3 : 10 June - 16 June	Lecture	Portfolio choices and asset allocation • The standard portfolio choice problem • The CARA-normal case • Mean-variance portfolio theory • Diversification and hedging
Week 4 : 17 June - 23 June	Lecture	The stochastic discount factor and the CAPM • The stochastic discount factor • The price of risk • Deriving the CAPM
Week 5 : 24 June - 30 June	Lecture	Risk-neutral and consumption-based pricing • Arrow-Debreu prices • Contingent claims • Risk-neutral probabilities
Week 6 : 1 July - 7 July	Lecture	 Asset pricing puzzles I - The equity risk premium and the risk-free rate • The equity premium puzzle • The equilibrium risk-free rate and its determinants • Explanations and problems
Week 7 : 8 July - 14 July	Lecture	Asset pricing puzzles II - Towards an explanation of the equity risk premium • Introduction to macro asset pricing • Habit preferences • Recursive preferences • Prospect theory Self-paced online learning with pre-recorded materials
Week 8 : 15 July - 21 July	Lecture	The derivative market – Overview and investment strategies: Part I • Introduction to derivatives • Forward contracts • Options • Investment strategies
Week 9 : 22 July - 28 July	Lecture	The derivative market – Pricing options: Part II • Binomial tree

		• Uncertainty in the binomial tree • Risk-neutral pricing • Option pricing with the consumption-based approach
Week 10 : 29 July - 4 August	Lecture	Basics of Corporate Finance • Captial Structure • Asymmetric Information • Agency Problem

Attendance Requirements

Students are strongly encouraged to attend all classes and review lecture recordings.

Course Resources

Prescribed Resources

BOOKS FROM WHICH READING ASSIGNMENTS ARE REQUIRED

1) Eeckhoudt, L., Gollier, C., & Schlesinger, H. (2011). Economic and financial decisions under risk. Princeton University Press.

- Here is a link to the print version of the book:https://www.bookshop.unsw.edu.au/details.cgi?ITEMNO=9780691122151
- Here is a link to the digital version: https://unswbookshop.vitalsource.com/products/-v9781400829217

2) Robert McDonald, Derivatives Markets, Pearson Addison Wesley, third edition, 2009.

MOODLE CONTENT

Students must familiarise themselves with material posted on Moodle, Moodle announcements, Moodle Forums, etc.

Course Evaluation and Development

Feedback is regularly sought from students and continual improvements are made based on this feedback. At the end of this course, you will be asked to complete the myExperience survey, which provides a key source of student evaluative feedback. Your input into this quality enhancement process is extremely valuable in assisting us to meet the needs of our students and provide an effective and enriching learning experience. The results of all surveys are

carefully considered and do lead to action towards enhancing educational quality.

Staff Details

Position	Name	Email	Location	Phone	Availability	Equitable Learning Services Contact	Primary Contact
Convenor	Tianyi Lu				By appointment	No	Yes
Lecturer	Huaizhou Li				By appointment	No	No

Other Useful Information

Academic Information

COURSE POLICIES AND SUPPORT

The Business School expects that you are familiar with the contents of this course outline and the UNSW and Business School learning expectations, rules, policies and support services as listed below:

- Program Learning Outcomes
- Academic Integrity and Plagiarism
- Student Responsibilities and Conduct
- Special Consideration
- Protocol for Viewing Final Exam Scripts
- Student Learning Support Services

Further information is provided on the key policies and support page.

Students may not circulate or post online any course materials such as handouts, exams, syllabi or similar resources from their courses without the written permission of their instructor.

STUDENT LEARNING OUTCOMES

The Course Learning Outcomes (CLOs) – under the Outcomes tab – are what you should be able to demonstrate by the end of this course, if you participate fully in learning activities and successfully complete the assessment items.

CLOs also contribute to your achievement of the Program Learning Outcomes (PLOs), which are developed across the duration of a program. PLOs are, in turn, directly linked to UNSW graduate

capabilities. More information on Coursework PLOs is available on the key policies and support page. For PG Research PLOs, including MPDBS, please refer to the UNSW HDR Learning Outcomes.

Academic Honesty and Plagarism

As a student at UNSW you are expected to display academic integrity in your work and interactions. Where a student breaches the UNSW Student Code with respect to academic integrity, the University may take disciplinary action under the Student Misconduct Procedure. To assure academic integrity, you may be required to demonstrate reasoning, research and the process of constructing work submitted for assessment.

To assist you in understanding what academic integrity means, and how to ensure that you do comply with the UNSW Student Code, it is strongly recommended that you complete the Working with Academic Integrity module before submitting your first assessment task. It is a free, online self-paced Moodle module that should take about one hour to complete.

Submission of Assessment Tasks

SPECIAL CONSIDERATION

You can apply for special consideration when illness or other circumstances beyond your control interfere with your performance in a specific assessment task or tasks, including online exams. Students studying remotely who have exams scheduled between 10pm and 7am local time, are also able to apply for special consideration to sit a supplementary exam at a time outside of these hours.

Special consideration is primarily intended to provide you with an extra opportunity to demonstrate the level of performance of which you are capable. To apply, and for further information, see Special Consideration on the UNSW Current Students page.

Special consideration applications will be assessed centrally by the Case Review Team, who will update the online application with the outcome and add any relevant comments. The change to the status of the application immediately sends an email to the student and to the assessor with the outcome of the application.

Please note the following:

1. Applications can only be made through Online Services in myUNSW (see the UNSW Current Students page). Applications will not be accepted by teaching staff. The lecturer-in-charge/ course coordinator will be automatically notified when your application is processed.
2. Applying for special consideration does not automatically mean that you will be granted a supplementary exam or other concession.
3. If you experience illness or misadventure in the lead up to an exam or assessment, you must submit an application for special consideration, either prior to the examination taking place, or prior to the assessment submission deadline, except where illness or misadventure prevent you from doing so.
4. If your circumstances stop you from applying before your exam or assessment due date, you must apply within 3 working days of the assessment or the period covered by your supporting documentation.
5. Under the UNSW Fit To Sit/Submit rule, if you sit the exam/submit an assignment, you are declaring yourself well enough to do so and are cannot subsequently apply for special consideration.
6. If you become unwell on the day of – or during – an exam, you must stop working on your exam, advise your course coordinator or tutor and provide a medical certificate dated within 24 hours of the exam, with your special consideration application. For online exams, you must contact your course coordinator or tutor immediately via email, Moodle or chat and advise them you are unwell and submit screenshots of your conversation along with your medical certificate and application.
7. Special consideration requests do not allow the awarding of additional marks to students.

Further information on Business School policy and procedure can be found under “Special Consideration” on the key policies and support page.

LATE SUBMISSION PENALTIES

For assessments other than examinations, late submission will incur a penalty of 5% per day or part thereof (including weekends) from the due date and time. An assessment will not be accepted after 5 days (120 hours) of the original deadline unless special consideration has been approved. An assignment is considered late if the requested format, such as hard copy or electronic copy, has not been submitted on time or where the ‘wrong’ assignment has been submitted.

For assessments which account for 10% or less of the overall course grade, and where answers are immediately discussed or debriefed, the LIC may stipulate a different penalty. Details of such late penalties will be available on the course Moodle page.

FEEDBACK ON YOUR ASSESSMENT TASK PERFORMANCE

Feedback on student performance from formative and summative assessment tasks will be provided to students in a timely manner. Assessment tasks completed within the teaching period of a course, other than a final assessment, will be assessed and students provided with feedback, with or without a provisional result, within 10 working days of submission, under normal circumstances. Feedback on continuous assessment tasks (e.g. laboratory and studio-based, workplace-based, weekly quizzes) will be provided prior to the midpoint of the course.

Faculty-specific Information

PROTOCOL FOR VIEWING FINAL EXAM SCRIPTS

UNSW students have the right to view their final exam scripts, subject to a small number of very specific exemptions. The UNSW Business School has set a protocol under which students may view their final exam script. Individual schools within the Faculty may also set up additional local processes for viewing final exam scripts, so it is important that you check with your School.

If you are completing courses from the following schools, please note the additional school-specific information:

- Students in the **School of Accounting, Auditing & Taxation** who wish to view their final examination script should also refer to this page.
- Students in the **School of Banking & Finance** should also refer to this page.
- Students in the **School of Information Systems & Technology Management** should also refer to this page.

COURSE EVALUATION AND DEVELOPMENT

Feedback is regularly sought from students and continual improvements are made based on this feedback. At the end of this course, you will be asked to complete the myExperience survey, which provides a key source of student evaluative feedback. Your input into this quality enhancement process is extremely valuable in assisting us to meet the needs of our students and provide an effective and enriching learning experience. The results of all surveys are carefully considered and do lead to action towards enhancing educational quality.

QUALITY ASSURANCE

The Business School is actively monitoring student learning and quality of the student experience in all its programs. A random selection of completed assessment tasks may be used for quality assurance, such as to determine the extent to which program learning goals are being

achieved. The information is required for accreditation purposes, and aggregated findings will be used to inform changes aimed at improving the quality of Business School programs. All material used for such processes will be treated as confidential.

TEACHING TIMES AND LOCATIONS

Please note that teaching times and locations are subject to change. Students are strongly advised to refer to the Class Timetable website for the most up-to-date teaching times and locations.