

School of Economics and Finance

## **MOFI 407: INVESTMENTS**

Second Trimester 2005

### **COURSE OUTLINE**

#### **Contact Details**

The course supervisor is Martin Lally, RH 301, Ph 463-5998, martin.lally@vuw.ac.nz.

#### **Class Times and Room Numbers**

Wednesday, 3.40pm – 6.30pm, RLWY 126.

There will be a final exam during the normal examination period for this semester.

#### **Course Objectives**

The course intensively examines selected aspects of portfolio theory and the pricing of equities. Classes will comprise weekly 2-3 hour seminars at which student contribution is anticipated. Prescribed reading should be done prior to the relevant class. Assignments will be prescribed weekly, for submission at the commencement of the following week's class.

#### **Materials and Equipment**

Electronic calculators may be used in examinations. Calculators must be no-programmable and without a full set of alphabetic keys.

#### **Assessment Requirements**

The final mark for the course will be based upon the following approximate weights

Weekly assignments	25%
Essay (see below)	25%
Final Exam	50%

The essay comprises a critical review of "Report on Strategic Asset Allocation", prepared by Mercer Investment Consulting for the New Zealand Superannuation Fund ([www.nzsuperfund.co.nz](http://www.nzsuperfund.co.nz)). It must be typed, 1.5 spaced A4, font 12, with a maximum of 18 pages at 25 lines per page, excluding the bibliography (c. 6000 words). Pages must be **numbered**. Students should consult a book on essay style. The due date is **October 7** (5.00pm).

#### **Penalties**

Late essays will suffer a penalty of 5% per calendar day (i.e. marked out of 95, 90, etc.) unless an extension has been granted in advance for significant medical or personal problems. Essay material in excess of the limit prescribed above will **not** be evaluated.

## **Mandatory Course Requirements**

There are no mandatory requirements for passing the course other than obtaining at least a C grade.

## **Communication of Additional Information**

Any additional information will be conveyed to students during classes.

## **Course Content**

The following topics will be examined.

1. The Efficient Frontier with short selling restrictions: July 6, 13
2. Portfolio composition and the investor's horizon: July 20, 27
3. Variants of the CAPM
  - (a) Personal taxation: Aug 3, 10, 31
  - (b) Continuous time trading: Sept 7, 14
  - (c) International Investment Opportunities: Sept 21, 28
4. Price setting under the CAPM: Oct 5

## **Readings**

Students should first be familiar with the mathematics in

Copeland, T. and Weston, J., "Financial theory and Corporate Policy", 3rd edition, Addison-Wesley, 1988, Appendices B and D.

Spiegel, M., "Advanced Calculus", McGraw-Hill, 1974, Ch. 1-6.

and the statistics in

Wonnacott, R. and Wonnacott, T., "Introductory Statistics", 3rd edition, Wiley, 1977, Ch 1-13.

Where appropriate reference should also be made to

Mood, A., Graybill, F. and Boes, D., "Introduction To The Theory of Statistics", 3rd edition, McGraw-Hill, 1974.

Prescribed reading for the seminar topics is as follows:

1. The Efficient Frontier with Short Selling Restrictions:

Sharpe, W., 1970. *Portfolio Theory and Capital Markets*, Appendices A, B, C. McGraw-Hill.

2. Portfolio Composition and the Investor's Horizon:

Alexander, G. and J. Francis, 1986. *Portfolio Analysis*, 3<sup>rd</sup> edition, Prentice-Hall, Ch. 12.

Kritzman, M., 1994. "What Practitioners Need to Know About Time Diversification", *Financial Analysts Journal*, Jan-Feb, 14-18.

### 3. Variants of the CAPM:

Lally, M., 1992. "The CAPM Under Dividend Imputation", *Pacific Accounting Review*, vol.4, 31-44.

\_\_\_\_\_, 2000. "Valuation of Projects and Companies Under Differential Personal Taxation", *New Zealand Investment Analyst*, vol. 21, 36-39.

\_\_\_\_\_, 2000. "Valuation of Companies and Projects Under Differential Personal Taxation", *Pacific-Basin Finance Journal*, vol. 8, 115-133.

Officer, R., 1994. "The Cost of Capital of a Company Under an Imputation Tax System", *Accounting and Finance*, vol. 34, 1-18.

Fama, E., 1970. "Multiperiod Consumption-Investment Decisions", *American Economic Review*, 163-174.

Merton, R. 1973, 'An Intertemporal Capital Asset Pricing Model', *Econometrica*, vol. 41, 867-87.

Breeden, D., "An Intertemporal Asset Pricing Model with Stochastic Consumption and Investment Opportunities", *Journal of Financial Economics*, 265-296.

Solnik, B., 1974. "An Equilibrium Model of the International Capital Market", *Journal of Economic Theory*, 500-524.

Stulz, R., 1995. "International Portfolio Choice and Asset Pricing: An Integrative Survey", in R. Jarrow et al (ed), *Handbooks in Operations Research and Management Science*, vol. 9, Elsevier Science BV.

### 4. Price Setting Under the CAPM:

Hirshleifer, J., 1970. *Investment, Interest and Capital*, Prentice-Hall Inc., Ch 10.

## **Faculty of Commerce and Administration Offices**

### Railway West Wing (RWW) - FCA Student Administration Office

The Student Administration Office is located on the ground and first floors of the Railway West Wing. The ground floor counter is the first point of contact for general enquiries and FCA forms. Student Administration Advisers are available to discuss course status and give further advice about FCA qualifications.

### Easterfield (EA) - FCA/Law Kelburn Office

The Kelburn Campus Office for the Faculties of Commerce & Administration and Law is situated in the Easterfield Building - it includes the ground floor reception desk (EA005) and offices 125a to 131 (Level 1). The office, will be open from 9:00 am to 5:00 pm during Trimester 2, offers the following:

- Duty tutors for student contact and advice.
- Information concerning administrative and academic matters.
- FCA Student Administration forms (e.g. application for academic transcripts, requests for degree audit, COP requests).
- Examinations-related information during the examination period.

Please note:

There will be a Student Administration Adviser, from the RWW office, based in EA005 from Monday 27 June to Friday 1 July (9:00 am to 5:00 pm) and from Monday 4 July to Friday 22 July (11:00 am to 1:00 pm).

## **General University Policies and Statutes**

Students should familiarise themselves with the University's policies and statutes, particularly those regarding assessment and course of study requirements, and formal academic grievance procedures.

## **Student Conduct and Staff Conduct**

The Statute on Student Conduct together with the Policy on Staff Conduct ensure that members of the University community are able to work, learn, study and participate in the academic and social aspects of the University's life in an atmosphere of safety and respect. The Statute on Student Conduct contains information on what conduct is prohibited and what steps can be taken if there is a complaint. For queries about complaint procedures under the Statute on Student Conduct, contact the Facilitator and Disputes Advisor. This Statute is available in the Faculty Student Administration Office or on the website at: [www.vuw.ac.nz/policy/StudentConduct](http://www.vuw.ac.nz/policy/StudentConduct).

The policy on Staff Conduct can be found on the VUW website at: [www.vuw.ac.nz/policy/StaffConduct](http://www.vuw.ac.nz/policy/StaffConduct).

## **Academic Grievances**

If you have any academic problems with your course you should talk to the tutor or lecturer concerned or, if you are not satisfied with the result of that meeting, see the Head of School or the Associate Dean (Students) of your Faculty. Class representatives are available to assist you with this process. If, after trying the above channels, you are still unsatisfied, formal grievance procedures can be invoked. These are set out in the Academic Grievances Policy which is published on the VUW website:

[www.vuw.ac.nz/policy/AcademicGrievances](http://www.vuw.ac.nz/policy/AcademicGrievances).

## **Academic Integrity and Plagiarism**

Academic integrity is about honesty – put simply it means **no cheating**. All members of the University community are responsible for upholding academic integrity, which means staff and students are expected to behave honestly, fairly and with respect for others at all times.

Plagiarism is a form of cheating which undermines academic integrity. Plagiarism is **prohibited** at Victoria.

The University defines plagiarism as follows:

Plagiarism is presenting someone else's work as if it were your own, whether you mean to or not.

*'Someone else's work' means anything that is not your own idea, even if it is presented in your own style. It includes material from books, journals or any other printed source, the work of other students or staff, information from the Internet, software programmes and other electronic material, designs and ideas. It also includes the organization or structuring of any such material.*

### ***Plagiarism is not worth the risk.***

Any enrolled student found guilty of plagiarism will be subject to disciplinary procedures under the Statute on Student Conduct ([www.vuw.ac.nz/policy/studentconduct](http://www.vuw.ac.nz/policy/studentconduct)) and may be penalized severely. Consequences of being found guilty of plagiarism can include:

- an oral or written warning
- suspension from class or university
- cancellation of your mark for an assessment or a fail grade for the course.

*Find out more about plagiarism and how to avoid it, on the University's website at: [www.vuw.ac.nz/home/studying/plagiarism.html](http://www.vuw.ac.nz/home/studying/plagiarism.html).*

## **Students with Disabilities**

The University has a policy of reasonable accommodation of the needs of students with disabilities. The policy aims to give students with disabilities an equal opportunity with all other students to demonstrate their abilities. If you have a disability, impairment or chronic medical condition (temporary, permanent or recurring) that may impact on your ability to participate, learn and/or achieve in lectures and tutorials or in meeting the course requirements, then please contact the Course Coordinator as early in the course as possible. Alternatively you may wish to approach a Student Adviser from Disability Support Services to confidentially discuss your individual needs and the options and support that are available. Disability Support Services are located on Level 1, Robert Stout Building, or phoning 463-6070, email: [disability@vuw.ac.nz](mailto:disability@vuw.ac.nz). The name of your School's Disability Liaison Person can be obtained from the Administrative Assistant or the School Prospectus.

## **Student Support**

Staff at Victoria want students' learning experiences at the University to be positive. If your academic progress is causing you concern, please contact the relevant Course Co-ordinator, or Associate Dean who will either help you directly or put you in contact with someone who can.

The Student Services Group is also available to provide a variety of support and services. Find out more at [www.vuw.ac.nz/st\\_services/](http://www.vuw.ac.nz/st_services/) or email [student-services@vuw.ac.nz](mailto:student-services@vuw.ac.nz).

VUWSA employs two Education Coordinators who deal with academic problems and provide support, advice and advocacy services, as well as organising class representatives and faculty delegates. The Education Office is located on the ground floor, Student Union Building, phone 463 6983 or 463 6984, email [education@vuwsa.org.nz](mailto:education@vuwsa.org.nz).

### **Maori and Pacific Mentoring programme (Manaaki Pihipihinga)**

This is a free programme of mentoring for Maori and Pacific students doing first year courses within the Faculty of Commerce and Administration. Weekly one hour mentoring sessions: drafting and editing assignments/discussing any questions that you might have from tutorials or lectures and going over every aspect of essay writing, either in small group sessions or on a one-to-one basis.

This includes:

- A computer suite hooked up to cyber commons for students to use to produce their assignments.
- Regular skill-based workshops with a learning adviser from Student Learning Support Services.
- Networking with other Maori and Pacific support groups throughout the university.

For more information please contact:

Melissa Dunlop, Programme Coordinator

Ph: 463 6015 or Email: [Maori-Pacific-Mentoring@vuw.ac.nz](mailto:Maori-Pacific-Mentoring@vuw.ac.nz)