

School of Economics and Finance

## **MMAF 530 SPECIAL TOPIC - REAL OPTIONS**

Trimester Two 2007

### **COURSE OUTLINE**

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#### **Contact Details**

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Office: RH 326  
Phone: 463-5763  
Office hours: Monday, 1:00-2:30 pm

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

Thursday, 11:30-14:20 in RWW315. The lecture room is booked for three hours, but each lecture will normally only last two hours.

The final exam for the course will be held during the final exam period at the end of the second trimester.

#### **Course Objectives**

To develop a set of modelling skills that enable the analysis of a range of situations involving real options; to develop awareness of a wider range of modelling approaches; to develop the ability to identify real options embedded in investment projects; and to gain insights into various phenomena that have puzzled financial economists.

#### **Course Content**

The material to be covered in the course will be drawn from the following list:

- Review of stochastic calculus
- Valuing risky cash flow streams
- NPV versus real options analysis
- Optimal stopping rules
- Systematic and unsystematic risk
- Irreversibility
- Time to build
- Capital market frictions
- Competition
- Practitioner use of real options analysis

## **Expected Workload**

The total expected workload for MMAF530 is intended to be similar to that for other 500-level MMAF courses. The total expected workload is 200 hours, comprising 16 – 17 hours per week.

## **Readings**

A set of comprehensive lecture notes will be made available. The following book, which is held on closed reserve in the commerce library, may also be useful:

Dixit, Avinash K., and Robert S. Pindyck. 1994. *Investment Under Uncertainty*, Princeton: Princeton University Press.

## **Materials and Equipment**

Calculators will not be allowed in the final examination.

## **Assessment Requirements**

The final grade in this course will be calculated using the results of three assignments and a final examination.

- Assignment 1: Due at 11:30am, Thursday, Jul. 26 (start of Lecture 3). Weight = 8%.
- Assignment 2: Due at 11:30am, Thursday, Sep. 13 (start of Lecture 8). Weight = 16%.
- Assignment 3: Due at 11:30am, Thursday, Oct. 18 (one week after Lecture 12). Weight = 16%.
- Final exam: Two hours, date to be advised. Weight = 60%.

However, see the “Mandatory Course Requirements” below.

## **Penalties**

Assignments handed in late will not be marked. If a satisfactory medical certificate is provided, the weight from the assignment will be shifted onto the other pieces of assessment; otherwise, the assignment score will be recorded as 0.

## **Mandatory Course Requirements**

A necessary condition for passing the course is that the score on the final exam is at least 50%.

## **Communication of Additional Information**

Course documents and other information will be available on the course website at <http://blackboard.vuw.ac.nz>. Announcements will also be posted there.

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

### Railway West Wing (RWW) - FCA Student and Academic Services Office

The Faculty’s Student and Academic Services 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. To check for opening hours call the Student and Academic Services Office on (04) 463 5376.

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

The Kelburn Campus Office for the Faculties of Commerce and Administration, Education 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 is available for the following:

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

To check for opening hours call the Student and Academic Services Office on (04) 463 5376.

### **Notice of Turnitin Use**

Student work provided for assessment in this course may be checked for academic integrity by the electronic search engine <<http://www.turnitin.com>>. Turnitin is an on-line plagiarism prevention tool which identifies material that may have been copied from other sources including the Internet, books, journals, periodicals or the work of other students. Turnitin is used to assist academic staff in detecting misreferencing, misquotation, and the inclusion of unattributed material, which may be forms of cheating or plagiarism. At the discretion of the Head of School, handwritten work may be copy typed by the School and subject to checking by Turnitin. You are strongly advised to check with the course coordinator if you are uncertain about how to use and cite material from other sources. Turnitin will retain a copy of submitted materials on behalf of the University for detection of future plagiarism, but access to the full text of submissions will not be made available to any other party.

### **General University Policies and Statutes**

Students should familiarise themselves with the University's policies and statutes, particularly the Assessment Statute, the Personal Courses of Study Statute, the Statute on Student Conduct and any statutes relating to the particular qualifications being studied; see the Victoria University Calendar or go to [www.vuw.ac.nz/policy](http://www.vuw.ac.nz/policy).

For information on the following topics, go to the Faculty's website [www.vuw.ac.nz/fca](http://www.vuw.ac.nz/fca) under Important Information for Students:

- Academic Grievances
- Academic Integrity and Plagiarism
- Student and Staff Conduct
- Meeting the Needs of Students with Impairments
- Student Support

### **Manaaki Pihipihinga Programme**

Manaaki Pihipihinga is an academic mentoring programme for undergraduate Māori and Pacific students in the Faculties of Commerce and Administration, and Humanities and Social Sciences. Sessions are held at the Kelburn and Pipitea Campuses in the Mentoring Rooms, 14 Kelburn Parade (back courtyard), Room 109D, and Room 210, Level 2, Railway West Wing. There is also a Pacific Support Coordinator who assists Pacific students by linking them to the services and support they need while studying at Victoria. Another feature of the programme is a support network for Postgraduate students with links to Postgraduate workshops and activities around Campus.

For further information, or to register with the programme, email [manaaki-pihipihinga-programme@vuw.ac.nz](mailto:manaaki-pihipihinga-programme@vuw.ac.nz) or phone (04) 463 5233 ext. 8977. To contact the Pacific Support Coordinator, email [pacific-support-coord@vuw.ac.nz](mailto:pacific-support-coord@vuw.ac.nz) or phone (04) 463 5842.