

Economics and Finance

MOFI 407 ADVANCED INVESTMENTS

Trimester Two 2008

COURSE OUTLINE

Names and Contact Details

The Course Coordinator and lecturer

Martin Lally, RH 301, ext 5998,
Email: martin.lally@vuw.ac.nz.

Students are free to contact him at any time.

Trimester Dates

The second trimester runs from Monday 7 July to Saturday 8 November 2008.

Class Times and Room Numbers

Classes will run on Wednesday 2.40-5.30pm, RWW126. The course has a final exam during the examination period Oct 17-Nov 8.

Course Objectives

The course intensively examines selected aspects of portfolio theory and the pricing of equities. Classes will comprise weekly 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.

Expected Workload

A minimum of 15 hours per week, comprising 3 hrs for the class, 3 hrs in preparing the assignment, 5 hrs in undertaking the background reading, and 4 hrs in researching and writing the essay.

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%

Essay

The essay comprises a critical review of *Report on Strategic Asset Allocation*, May 2003, prepared by Mercer Investment Consulting for the New Zealand Superannuation Fund (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 and may also wish to examine the following example of a critical review: *Investing in New Zealand: A Review* (available at

www.nzsuperfund.co.nz). An Executive Summary is not required and any Conclusion section should be brief. The due date is **October 10** (5.00pm).

Penalties

Late essays will suffer a penalty of 5% per business 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.

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 9, 16
2. Portfolio composition and the investor's horizon: July 23, 30
3. Variants of the CAPM
 - (a) Personal taxation: Aug 6, 13, Sept 3
 - (b) Continuous time trading: Sept 10, 17
 - (c) International Investment Opportunities: Sept 24, Oct 1
4. Price setting under the CAPM: Oct 8

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, Appendix 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*, 3rd 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 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 on the ground floor (EA005). This counter is the first point of contact for :

- 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.

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.victoria.ac.nz/home/about/policy/students.aspx

For information on the following topics, go to the Faculty's website www.victoria.ac.nz/fca under Important Information for Students:

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

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. The University defines plagiarism as follows:

The presentation of the work of another person or other persons as if it were one's own, whether intended or not. This includes published or unpublished work, material on the Internet and the work of other students or staff.

It is still plagiarism even if you re-structure the material or present it in your own style or words.

Note: including the work of others will not be considered plagiarism as long as the work is acknowledged by appropriate referencing.

Plagiarism is prohibited at Victoria and is not worth the risk. Any enrolled student found guilty of plagiarism will be subject to disciplinary procedures under the Statute on Student Conduct and may be penalised severely. Consequences of being found guilty of plagiarism can include:

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

Find out more about plagiarism, and how to avoid it, on the University's website:

www.victoria.ac.nz/home/studying/plagiarism.html

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 or phone (04) 463 6015. To contact the Pacific Support Coordinator, email pacific-support-coord@vuw.ac.nz or phone (04) 463 5842.