

School of Economics and Finance

MOFI407: ADVANCED INVESTMENTS

Trimester Two 2009

COURSE OUTLINE

Names and Contact Details

The Course Coordinator and lecturer for the course is Martin Lally, RH 301, ext 5998, martin.lally@vuw.ac.nz. Students are free to contact him at any time.

Trimester Dates

The second trimester runs from Monday 13 July to Saturday 14 November 2008. The teaching period runs from Monday 13 July until Friday 16 October and the examination period is from Tuesday 27 October to Saturday 14 November (inclusive).

Withdrawal dates: Information available via

<http://www.victoria.ac.nz/home/admisenrol/payments/withdrawalsrefunds.aspx>

Class Times and Room Numbers

Classes will run on Thursdays at 11.30am-2.20pm in RWW129.

Course Learning Objectives

The course learning objectives are as follows:

- To demonstrate an understanding of selected aspects of the theory of asset pricing and portfolio selection, relating to the Markowitz Portfolio Model, the relevance of investors' horizons to portfolio choice, and versions of the CAPM. The exam and weekly assignments relate to this.

To demonstrate an ability to critically assess a piece of financial analysis involving some of the preceding aspects of portfolio theory and asset pricing. The essay relates to this.

Course Delivery

The delivery of the course will involve weekly classes, involving review of the previous week's assignment and the presentation of new material.

Expected Workload

A minimum of 14 hours per week, comprising 3 hrs for the class, 3 hrs in preparing the assignment, 4 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%
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Essay	25%
Final Exam	50%

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 16** (5.00pm).

Note: Your assessed work may also be used for quality assurance purposes, such as to assess the level of achievement of learning objectives as required for accreditation and audit purposes. The findings may be used to assess the need for changes aimed at improving the quality of FCA programmes. All material used for such processes will be treated as confidential, and the outcome will not affect your grade for the course.

Examinations

The final examination for this course will be scheduled at some time during the period from Tuesday 27 October to Saturday 14 November 2009.

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

Additional information will be conveyed to students during classes.

For the following important information follow the links provided:

Academic Integrity and Plagiarism

<http://www.victoria.ac.nz/home/study/plagiarism.aspx>

General University Policies and Statutes

<http://www.victoria.ac.nz/home/about/policy/academic.aspx>

Faculty of Commerce and Administration Offices

<http://www.victoria.ac.nz/fca/studenthelp/Contactus.aspx>

Manaaki Pihipihinga Programme

http://www.victoria.ac.nz/st_services/mentoring/

Course Content and Readings

The following topics will be examined.

1. The Efficient Frontier with short selling restrictions: July 16, 23
2. Portfolio composition and the investor's horizon: July 30, Aug 6
3. Variants of the CAPM
 - (a) Personal taxation: Aug 13, 20, Sept 10
 - (b) Continuous time trading: Sept 17, 24
 - (c) International Investment Opportunities: Oct 1, 8
4. Price setting under the CAPM: Oct 15

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.

The 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. 1979, "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.