Subject Description
This subject extends the language, concepts and techniques from ACCY221 into the areas of capital investments and portfolio management. The subject introduces students to the investment decisions facing the investor, explores the economic basis of investing and develops the analytical framework used to explain the pricing of investments within various market structures. Emphasis is also placed on understanding of concepts of portfolio management approaches to capital investment and identification and application of practical investment tools in constructing and managing diverse investment portfolios.

Objectives
Upon completion of this subject students are expected to have sufficient theoretical understanding to:

- recognise and explain the terminology, concepts and characteristics of financial investments,
- identify, formulate and solve the main decisions facing the investor in selecting and constructing a portfolio of assets,
- explain, evaluate and discuss the organisation and functioning of alternative financial asset markets,
- identify and apply techniques for pricing of major financial assets,
- recognise and discuss measures used to evaluate investment performance,
- define portfolio management strategies and the fundamental issues and decisions involved.

Lectures:
L/1 Tuesday, 11.30 - 12.30, Room 67.104
L/2 Wednesday, 11.30 - 12.30, Room 20.3

Lecturer/Subject Coordinator:
Gerhard Gniewosz, Phone: 4221 3769, Room 40.308
Email: gerhard_gniewosz@uow.edu.au
Consultation Times: to be announced in class

Textbook
**Strongly Recommended Reading**


Daily editions of *The Australian Financial Review*, see also in electronic form at [www.afr.com](http://www.afr.com). This has a useful dictionary of commercial terms.

**Recommended Readings**


**Study Time per Week:**

According to university rules each credit point for a single session subject has a value of about 2 hours per week, including class attendance. As this is a 6 credit point subject, students are expected to devote at least 12 hours per week on this subject.

**Attendance Requirements:**

The Code of Practice - Students, Responsibility of Students requires students to attend all lectures, tutorials, seminars and practical work required for each subject in which they are enrolled.
General Information

Students are expected to familiarise themselves with the university policies on plagiarism, workload, supplementary examinations and special considerations, as outlined in the University of Wollongong Calendar 2002. Students can view these policies on the University of Wollongong website at www.uow.edu.au

Students with disabilities

If a student with a disability requires reasonable accommodation in this subject, they are strongly advised to discuss the issue early in the session with one of the following people: the Disability Liaison Officer, Faculty Adviser and/or the subject coordinator.

Assessment

<table>
<thead>
<tr>
<th>Assessment</th>
<th>Percentage</th>
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<tr>
<td>Major assignment</td>
<td>25%</td>
</tr>
<tr>
<td>Mid-semester test</td>
<td>15%</td>
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<td>Final examination</td>
<td>60%</td>
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<td>100%</td>
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To pass this subject students must obtain a pass mark (50%) in the final examination. Marks may be scaled.

Contribution to class discussion will be taken into account in marginal cases.

Mid-session Test

During lecture on Tuesday 3.9.2002. Multiple-choice only, covering content of chapters listed in the subject outline up to, and including, chapter 7

Compulsory Subject Requirements

To be considered for a passing grade, students must comply with all of the following:
- attend at least 75% of all scheduled classes,
- be prepared and participate in class discussion and make presentations as required,
- sit the term test,
- submit a major assignment of a reasonable standard,
- obtain at least 50% in the final examination.

Non-compliance with any of these requirements will result in a fail grade for this subject.
**Major assignment**

Note: This is a group assignment and must be submitted in groups of 3 to 5 students. Students select their own groups.

**Topic**

While there is a great deal of evidence to support the Efficient Market Hypothesis, there is mounting evidence that runs counter to it. Indeed, tracking down share market anomalies has become a growth industry.

Brown, 1993

Based on your literature review, discuss the following three aspects:

- Exactly what is an efficient market, and do such markets exist?
- Are share prices always (or nearly always) correctly set in the market? If not, why not. If yes, does this mean there is little opportunity to find undervalued shares?
- What are the implications of the Efficient Market Hypothesis for the use of fundamental and/or technical analysis in the share selection process? If there is no use for such analysis, how would you go about selecting shares?

Due date of submission: **Tuesday 11.10.2002, 11am, box outside room 40.308**

Late submission penalty: one mark per day or part thereof.

**Presentation requirements**

- The assignment must be typed, 1.5 spaced, on one side of the paper only.
- One copy only is required
- Problems with computers, software, lost disk, etc, will not be accepted as excuses for late submission, or inability to produce a second copy at short notice (if required).
- Pages must be consecutively numbered.
- Your assignment must have a title page which shows the name of the university, name of the department, topic, subject code and name, names and ID numbers of all students submitting the assignment and due date.
- An abstract of no more than 150 words is required.
- There must be wide margins on all sides (about 25mm).
- Assignments must include a list of References, which must only include references actually referred to in the assignment. Referencing must follow an acceptable academic format, see for example the attached Harvard Referencing system.
- Word limit is 3,000, excluding Abstract, Tables, Figures, Reference List, and Appendices.
- Assignments will be penalised for failure to meet the above requirements.

**DO NOT PLAGIARISE** (which also includes copying from another group).

Plagiarised assignments will receive a mark of zero.

Plagiarised work will receive a mark of zero.
Assignments will be returned to students during class time after marking. Fax-ed, e-mailed or mailed written work will not be considered as having been submitted for the purposes of completion of the subject.

The Department of Accounting & Finance Essay/Assignment Coversheet must be completed and attached to the front of the assignment.

**Tutorials**

Students may be asked, on a random basis, to make presentations of the listed tutorial questions for the week. Non-presentation, when asked to present, will be given a mark of zero. Students may be asked to present more than once throughout the semester.

**Important Note**

Students are expected to familiarise themselves with the University regulations as stated in the Calendar, including the regulations on special considerations and supplementary examinations, plagiarism, and code of practice by students.

**Plagiarism**

The University Calendar makes the following statement on plagiarism:

“Plagiarism is the use of another person’s work, or idea, as if it is your own. The other person may be an author, critic, lecturer or another student. When it is desirable or necessary to use other people’s material, take care to include appropriate references and attribution - do not pretend the ideas are your own. **Plagiarism has led to expulsion from the University**.”
## Subject Program

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<thead>
<tr>
<th>2002 Week beg</th>
<th>Topic</th>
<th>Reference (Jones)</th>
<th>Tutorial Questions</th>
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<td>22/7.</td>
<td>Subject Overview/Organisation. Understanding Investments. Investment Alternatives Time value of money (revision)</td>
<td>Ch 1, 2; ACCY221 text</td>
<td>TVM (next page) Q 1.5, 1.7, 1.8, 1.11, 1.13, 1.18, 1.19, Q 2.10, 2.13, 2.14, 2.15, 2.24, 2.26</td>
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<td>29/7</td>
<td>Securities Markets &amp; Transactions</td>
<td>Gitman Ch 2</td>
<td>Q 1.5, 1.7, 1.8, 1.11, 1.13, 1.18, 1.19, Q 2.10, 2.13, 2.14, 2.15, 2.24, 2.26</td>
</tr>
<tr>
<td>5/8</td>
<td>Investment Planning &amp; Information</td>
<td>Gitman Ch3</td>
<td>Gitman CR 2.1, 2.9, 2.13, 2.17 P 2.2, 2.4 to 2.8 Case 2.2</td>
</tr>
<tr>
<td>12/8</td>
<td>Returns &amp; Risk from Investing</td>
<td>Ch 6</td>
<td>Gitman CR 3.5, 3.6, 3.10, 3.15, 3.20 P 3.2 to 3.4, 3.7, 3.9</td>
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<td>19/8</td>
<td>Expected Return &amp; Risk</td>
<td>Ch 7</td>
<td>Q 6.3, 6.5, 6.6, 6.10 6.11 6.12, 6.15 P 6.1, 6.3, 6.8, 6.13, 6.14, 6.21 to 6.24</td>
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<tr>
<td>26/8</td>
<td>Bond Yields &amp; Prices Bonds: Analysis &amp; Strategy</td>
<td>Ch 8 Ch 9</td>
<td>Q 7.2 to 7.6, 7.15 P 7.1 to 7.3, 7.13, 7.15</td>
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<td>Ch 10 &amp; 11</td>
<td>Q 8.1 to 8.4, 8.8, 8.13 P 8.1 to 8.3, 8.7, 8.9, 8.16, 8.17 Q 9.3, 9.5, 9.7, 9.10 P 9.1, 9.3</td>
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<td>9/9</td>
<td>Options</td>
<td>Ch 17</td>
<td>Q 10.2, 10.3, 10.5, 10.8, 10.9 P 10.1 to 10.3, 10.7, 10.9, 10.10, 10.17, 10.18 P 11.1, 11.4, 11.5, 11.8, 11.13, 11.15, 11.17, 11.18, 11.20</td>
</tr>
<tr>
<td>16/9</td>
<td>Futures</td>
<td>Ch 18</td>
<td>Q 17.1, 17.3, 17.7, 17.9, 17.11, 17.14, 17.17, 17.21 P 17.1 to 17.3</td>
</tr>
<tr>
<td>23/9 &amp; 30/8</td>
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<td>7/10</td>
<td>Assignment due Portfolio Selection</td>
<td>Ch 19</td>
<td>Q 18.1, 18.2, 18.4, 18.7, 19.10, 18.16 P 18.1 to 18.4</td>
</tr>
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<td>14/10</td>
<td>Capital Market Theory</td>
<td>Ch 20</td>
<td>Q 19.5 to 19.10, P 19.3</td>
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<td>21/10</td>
<td>Portfolio Management</td>
<td>Ch 21</td>
<td>Q 20.2 to 20.5, 20.7 to 20.10, 20.12, 20.26 P 20.1 to 20.3, 20.6, 20.7</td>
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<td>4/11</td>
<td>Study Recess</td>
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<tr>
<td>9/11 to 22/11</td>
<td>Examination Weeks</td>
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This schedule may be subject to change
Tutorial – Time Value of Money

Andria Lee, a recent college graduate, now works as a staff consultant for Engler and Yong (E&Y), a business consulting firm. Ms. Lee completed two months of intensive training at E&Y and shortly thereafter was assigned to a project team. As the team just completed a successful engagement with a client, Ms. Lee thinks to herself: “Finally, I have some time to get my own financial house in order.”

Ms. Lee has three financial concerns. First, she wants to begin a disciplined savings plan and is considering 5-year certificates of deposit at two local banks: Frost bank pays 8 percent per year compounded annually on its 5-year CDs, and Bankers Trust pays 8 percent per year compounded quarterly. Second, Ms. Lee has been offered a credit card with a $3,000 spending limit and an annual percentage rate (APR) of 20.87 percent. The application form provides the following illustration:

<table>
<thead>
<tr>
<th>Money you Receive</th>
<th>Monthly Payment</th>
<th>Number of Payments</th>
<th>Total of Payments</th>
<th>Finance Charge</th>
</tr>
</thead>
<tbody>
<tr>
<td>$3,000</td>
<td>$112.82</td>
<td>36</td>
<td>$4,061.52</td>
<td>$1,061.52</td>
</tr>
</tbody>
</table>

Third, she wants to buy a condominium unit, which she expects will cost $1,000,000 and require a $20,000 down payment. Local rates on 30-year mortgages are 9 percent per year. Your task, as a close personal friend of Ms. Lee’s, is to help her by analysing the following questions and problems. (Looking at the task ahead, you soon realize that a financial calculator will be helpful in solving some of the problems.)

a. Ms. Lee has $7,000 to invest in a 5-year CD. Both Frost Bank and Bankers Trust have CDs that allow reinvestment of interest at the rate offered when the CD is purchased. In which bank should Ms. Lee deposit her $7,000? Support your answer by calculating the value of the CD in each bank at the end of 5 years.

b. Calculate the present value of each future value that you calculated in Part a. For the Frost Bank CD, use a discount rate of 8 percent per year compounded annually; for the Bankers Trust CD, use a discount rate of 8 percent per year, compounded quarterly. In view of your analyses in Part a and b, describe the relationship between the calculation of future value and the calculation of present value.

c. Calculate the effective annual rate on the CD offered by each bank. Do these rates support your decision in Part a? Explain.

d. Suppose that instead of investing in a CD, Ms. Lee decides to invest $7,000 in seven perpetual bonds issued by the United Kingdom. Each bond has a face value of $1,000 and a coupon rate of 8 percent, meaning that it pays $80 interest each year. Five years later, after interest rates have declined, the market price of the bond has increased, and it is yielding 7 percent. Ms. Lee then decides to see her seven bonds. What is her total capital gain on the bonds?

e. Repeat the calculations for Part d but assume that interest rates have risen and the bond is yielding 9 percent. Compare the risk of the perpetual bonds with the risk of the CDs. Which investment is riskier? Explain.

f. The application form for the credit card shows that Ms. Lee can borrow $3,000 and pay 36 payments of $112.82 each. Use this information to calculate the effective annual rate.
g. The application form for the credit card states that the APR is 20.87 percent. Use this information to calculate the effective annual rate. Speculate on why the credit card company prominently displays the APR but not the effective annual rate.

h. If Ms. Lee purchases the condominium unit, how much money will she need to pay each month on her mortgage loan?

i. Calculate the effective annual rate of the mortgage loan.

j. Show the first three monthly entries of the monthly amortization schedule for the mortgage loan.
WHY DO YOU NEED TO REFERENCE?
At University it is necessary to acknowledge the sources of information and ideas that you have incorporated in your assignments. Failure to do this thoroughly may result in accusations of plagiarism: this is the academic equivalent of stealing (because by not acknowledging someone else's work, you are parading it as your own). Plagiarism is taken very seriously by the University and may result in expulsion from the University.

Referencing is not only about acknowledging other people's work: accurate referencing and lists of references are beneficial when researching a topic as they allow the reader to follow up information and read further into the area. In a sense, references provide readers with clues to help them explore different avenues of a topic. This aspect of referencing will become more valuable to you as you progress in your studies.

There is a correct procedure that must be followed when referencing and using footnotes. Not complying with these set techniques and format will most likely result in loss of marks.

When writing an essay it is easiest to reference as you go, making sure you are writing down all relevant information. This will save hours trying to find the source again in the library.

THE HARVARD SYSTEM
The Harvard system makes use of short references within the body of the text. It is supplemented by a detailed list of references at the end of the text which provides all the information necessary to find the source material. In-text references include the author and year of publication, and where necessary the page number(s). For example:

 Owners of a firm are regarded as external parties (Martin 1988, p. 7)

You will see variations on how the information in brackets is presented. For example the 'p.' for page is often omitted, and preceded by a colon, that is: (Martin 1988: 7). The first example follows the guidelines set out in the Style Manual for Authors, Editors and Printers, 5th ed., 1995, p. 149. The important thing to remember is to be consistent in your punctuation format, and to check with your lecturer as to his or her preference.

The brief in-text references must be supplemented by a detailed list of references at the end of your assignment. Sources are listed alphabetically by the surname of the author. The format is as follows:


The above format follows that specified by the 1995 edition of the Style Manual. Expect to find variations in the placing of commas, brackets around the year of publication, and order of place of publication and the publisher's name. Regardless of these minor differences in format, the minimum information for each reference entry is:

- the name of the author(s), (Martin C.)
- year of publication, (1988)
- edition of the book if it is a reprint, (2nd ed.)
- title of the book in italics, (An Introduction to Accounting)
- in the case of hand written assignments, underline the title
- publisher's name and place of publication, (McGraw-Hill, Sydney)

For journal entries the format is as follows:


For journal entries the minimum information is:
HOW DO YOU QUOTE SOMEONE?

The material you cite in your assignment might be a paraphrase from someone else’s work, or a direct quote. In the case of a direct quotation there are a number of conventions you need to observe. Firstly, the words of the original should be copied exactly, and placed within double inverted commas. For example:

Thus, if this statement is to be included in the annual reports it will "enhance the awareness, comprehension and acceptance of value added by workers" (Morley, 1978, p. 21).

The second convention to observe is the placing of square brackets around words that are not in the original quote but are necessary to the sentence to aid clarity. For example, in the above example from a student essay, the reader won’t know what this statement refers to. An informative quote from the student assignment would therefore be:

Thus, if [a Value Added Statement] is to be included in the annual reports it will "enhance the awareness, comprehension and acceptance of value added by workers" (Morley, 1978, p. 21).

The other two conventions related to quoting which are necessary to observe are (i) the use of ellipsis marks (…) to show that some part of the quote has been omitted, and (ii) indentation of quotes that are longer than three lines. As longer quotes are offset from the main text and indented, it is not necessary to place them in quotation marks. Indented quotations are often written in a smaller point. For example:

Many small businesses are owned by one person. No particular legal formalities are required to commence operations, although it is common practice to set up a business bank account and operate under a business name, which must, in certain circumstances, be registered. Amounts contributed to the business by the owner are called capital.

This section on referencing has been very brief, and no doubt it will not answer all your referencing questions. Keep in mind that every article you read for your subject will incorporate references. Use these articles as a resource to assist you in improving your referencing by taking note of how the author incorporates the reference into the text in terms of the mechanics (colons, brackets, order of information etc.), and more importantly when you need to include a reference.


For help in essay and report writing see, Woodward-Kron, R. 1996, Writing in Commerce, University of Newcastle, Newcastle. This is a clear and concise book providing direction for students who are beginning to write essays at University.