



ACST8087

Quantitative Asset and Liability Modelling 1

Session 1, Weekday attendance, North Ryde 2020

Department of Actuarial Studies and Business Analytics

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General Information

Unit convenor and teaching staff

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Credit points

10

Prerequisites

(STAT810 or STAT8310 or STAT806) and (ACST881 or ACST8081)

Corequisites

Co-badged status

Unit description

This unit examines: rational expectations theory, rational choice theory, behavioural economics, properties of risk measures, risk and insurance companies, stochastic interest rate models, mean-variance portfolio theory, asset pricing models, single and multifactor returns models, binomial lattice models for option pricing and methods for calculating outstanding claims provisions in general insurance. Students gaining a credit average in both ACST8087 and ACST8088 (minimum mark of 60 on both units) will satisfy the requirements for exemption from the professional subject CM2 of the Actuaries Institute.

Important Academic Dates

Information about important academic dates including deadlines for withdrawing from units are available at <https://www.mq.edu.au/study/calendar-of-dates>

Learning Outcomes

On successful completion of this unit, you will be able to:

ULO1: Apply decision making via utility functions, and describe rational expectations theory, rational choice theory, behavioural economics and three different forms of market efficiency.

ULO2: Employ the use of Capital Asset Pricing Model (CAPM), single/multi index models and Arbitrage Pricing Theory (APT) Model in asset pricing and analyse investment risk using various risk measures.

ULO3: Apply the binomial option pricing models to value European and American type options.

ULO4: Apply a stochastic approach to the theory of interest on the mean and variance of the accumulation of a sequence of payments to solve practical problems.

ULO5: Use various methods of run-off triangles for valuation and reserving of liabilities.

ULO6: Extend the binomial option pricing models to value various types complex options.

Assessment Tasks

Coronavirus (COVID-19) Update

Assessment details are no longer provided here as a result of changes due to the Coronavirus (COVID-19) pandemic.

Students should consult [iLearn](#) for revised unit information.

[Find out more about the Coronavirus \(COVID-19\) and potential impacts on staff and students](#)

General Assessment Information

GradeBook

Assignment and class test marks are available on GradeBook. It is the responsibility of students to view their marks for each within session assessment on iLearn within 20 working days of posting. If there are any discrepancies, students must contact the unit convenor immediately. Failure to do so will mean that queries received after the release of final results regarding assessment marks (not including the final exam mark) will not be addressed.

Assignment

Due: **Thursday 9 April 12:00noon**

Weighting: **20%**

Assignment has to be submitted via both on iLearn and ACST8087 Assignment Box in BESS.

No extensions will be granted. There will be a deduction of 10% of the total available marks made from the total awarded mark for each 24 hour period or part thereof that the submission is late (for example, 25 hours late in submission -- 20% penalty). This penalty does not apply for cases in which an application for special consideration is made and approved. No submission will be accepted after solutions have been posted.

Class Test

Due: **Thursday 21 May 12:00noon**

Weighting: **20%**

Class test will be approximately 90 minutes written papers with no reading time, held during the seminar time. No notes or textbooks are permitted, but a copy of the formula sheets is provided. Non-programmable calculators with no text-retrieval capacity are allowed. Dictionaries are not permitted. Students who do not sit the test will be awarded a mark of 0, except for cases in which an application for special consideration is made and approved.

Final Examination

Due: **Examination period**

Weighting: **60%**

The final examination will be a three-hour written paper with ten minutes reading time, held during the University Examination period. No notes or textbooks are permitted, but a copy of the formula sheets is provided. Non-programmable calculators with no text-retrieval capacity are allowed. Dictionaries are not permitted.

Delivery and Resources

Coronavirus (COVID-19) Update

Any references to on-campus delivery below may no longer be relevant due to COVID-19.

Please check here for updated delivery information: https://ask.mq.edu.au/account/pub/display/unit_status

CLASSES

This unit consists of 4 hours of seminars per week. Seminars are held at the following times: Thursday 12:00-2:00pm, 04 EAR 110 and Friday 3:00-5:00pm, 08 SCO 117.

Any alterations to the class times or locations will be advised in lectures and via the website.

REQUIRED and RECOMMENDED TEXTS and/or Materials

Required texts

Seminar materials are available for downloading from ACST8087 teaching website.

Recommended textbooks

- Investment Science; David Luenberger
- Modern Portfolio Theory and Investment Analysis; Edwin J. Elton, Martin J. Gruber, Stephen J. Brown and William N. Goetzmann
- Investment Mathematics and Statistics; Andrew Adams, Della Bloomfield, Philip Booth and Peter England
- Options, Futures and Other Derivatives; John Hull

Each copy of these books is available in the Reserve section of the Library and can be

purchased from the Macquarie University Co-op bookshops.

Optional ActEd material

- The ActEd CM2, that can be purchased directly from ActEd.

Unit Schedule

Coronavirus (COVID-19) Update

The unit schedule/topics and any references to on-campus delivery below may no longer be relevant due to COVID-19. Please consult [iLearn](#) for latest details, and check here for updated delivery information: https://ask.mq.edu.au/account/pub/display/unit_status

Week	Lecture Topics
1.	Utility Theory, Decision making via utility functions
2.	Stochastic dominance, Behavioural finance
3.	Mean-Variance portfolio theory
4.	The CAPM
5.	Single/Multi index models, Arbitrage pricing theory (APT)
6.	Measurements of investment risk
7.	Options
	(Assignment due - Thursday 9 April at 12:00noon)
Semester Break	
8.	Single/Multi period Binomial option pricing model
9.	American option pricing via Binomial model
10.	Runoff triangle
11.	Class Test (Thursday 21 May 12:00-2:00pm)
12.	Stochastic interest rate models / Efficient market hypothesis
13.	Revision

Policies and Procedures

Macquarie University policies and procedures are accessible from [Policy Central](https://staff.mq.edu.au/work/strategy-planning-and-governance/university-policies-and-procedures/policy-central) (<https://staff.mq.edu.au/work/strategy-planning-and-governance/university-policies-and-procedures/policy-central>). Students should be aware of the following policies in particular with regard to Learning and Teaching:

- [Academic Appeals Policy](#)

- [Academic Integrity Policy](#)
- [Academic Progression Policy](#)
- [Assessment Policy](#)
- [Fitness to Practice Procedure](#)
- [Grade Appeal Policy](#)
- [Complaint Management Procedure for Students and Members of the Public](#)
- [Special Consideration Policy](#) (**Note:** *The Special Consideration Policy is effective from 4 December 2017 and replaces the Disruption to Studies Policy.*)

Students seeking more policy resources can visit the [Student Policy Gateway](https://students.mq.edu.au/support/study/student-policy-gateway) (<https://students.mq.edu.au/support/study/student-policy-gateway>). It is your one-stop-shop for the key policies you need to know about throughout your undergraduate student journey.

If you would like to see all the policies relevant to Learning and Teaching visit [Policy Central](http://staff.mq.edu.au/work/strategy-planning-and-governance/university-policies-and-procedures/policy-central) (<http://staff.mq.edu.au/work/strategy-planning-and-governance/university-policies-and-procedures/policy-central>).

Student Code of Conduct

Macquarie University students have a responsibility to be familiar with the Student Code of Conduct: <https://students.mq.edu.au/study/getting-started/student-conduct>

Results

Results published on platform other than [eStudent](#), (eg. iLearn, Coursera etc.) or released directly by your Unit Convenor, are not confirmed as they are subject to final approval by the University. Once approved, final results will be sent to your student email address and will be made available in [eStudent](#). For more information visit ask.mq.edu.au or if you are a Global MBA student contact globalmba.support@mq.edu.au

Student Support

Macquarie University provides a range of support services for students. For details, visit <http://students.mq.edu.au/support/>

Learning Skills

Learning Skills (mq.edu.au/learningskills) provides academic writing resources and study strategies to help you improve your marks and take control of your study.

- [Getting help with your assignment](#)
- [Workshops](#)
- [StudyWise](#)
- [Academic Integrity Module](#)

The Library provides online and face to face support to help you find and use relevant information resources.

- [Subject and Research Guides](#)
- [Ask a Librarian](#)

Student Services and Support

Students with a disability are encouraged to contact the [Disability Service](#) who can provide appropriate help with any issues that arise during their studies.

Student Enquiries

For all student enquiries, visit Student Connect at ask.mq.edu.au

If you are a Global MBA student contact globalmba.support@mq.edu.au

IT Help

For help with University computer systems and technology, visit http://www.mq.edu.au/about_us/offices_and_units/information_technology/help/.

When using the University's IT, you must adhere to the [Acceptable Use of IT Resources Policy](#). The policy applies to all who connect to the MQ network including students.

Changes from Previous Offering

The unit code has changed to ACST8087 from ACST887.