



ACST8087

Quantitative Asset and Liability Modelling 1

Session 1, Online-flexible-In person assessment, North Ryde 2022

Department of Actuarial Studies and Business Analytics

Contents

<u>General Information</u>	2
<u>Learning Outcomes</u>	2
<u>General Assessment Information</u>	3
<u>Assessment Tasks</u>	4
<u>Delivery and Resources</u>	5
<u>Unit Schedule</u>	6
<u>Policies and Procedures</u>	7

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General Information

Unit convenor and teaching staff Jiwook Jang jiwook.jang@mq.edu.au
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.

General Assessment Information

Assessment criteria for all assessment tasks will be provided on the unit iLearn site. It is the responsibility of students to view their marks for each within-session-assessment on iLearn within 20 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 tasks (not including the final exam mark) will not be addressed.

Late submissions of assessments

Unless a Special Consideration request has been submitted and approved, no extensions will be granted. There will be a deduction of 10% of the total available assessment-task marks made from the total awarded mark for each 24-hour period or part thereof that the submission is late. Late submissions will only be accepted up to 96 hours after the due date and time.

No late submissions will be accepted for timed assessments – e.g., quizzes, online tests.

Table 1: Penalty calculation based on submission time

Submission time after the due date (including weekends)	Penalty (% of available assessment task mark)	Example: for a non-timed assessment task marked out of 30
< 24 hours	10%	10% x 30 marks = 3-mark deduction
24-48 hours	20%	20% x 30 marks = 6-mark deduction
48-72 hours	30%	30% x 30 marks = 9-mark deduction
72-96 hours	40%	40% x 30 marks = 12-mark deduction
> 96 hours	100%	Assignment won't be accepted

Special Consideration

To request an extension on the due date/time for a timed or non-timed assessment task, you must submit a Special Consideration application. An application for Special Consideration does not guarantee approval.

The approved extension date for a student becomes the new due date for that student. The late submission penalties above then apply as of the new due date.

Assessment Tasks

Name	Weighting	Hurdle	Due
<u>Assignment</u>	20%	No	Wednesday 30 March 12:00noon
<u>Class Test</u>	20%	No	Tuesday 17 May 3:00pm
<u>Final Exam</u>	60%	No	Examination period

Assignment

Assessment Type ¹: Quantitative analysis task

Indicative Time on Task ²: 20 hours

Due: **Wednesday 30 March 12:00noon**

Weighting: **20%**

This is an individual assignment which focuses on problem solving using Excel spreadsheet.

On successful completion you will be able to:

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

Class Test

Assessment Type ¹: Quiz/Test

Indicative Time on Task ²: 10 hours

Due: **Tuesday 17 May 3:00pm**

Weighting: **20%**

The test will be approximately 90 minutes, to be held during class time.

On successful completion you will be able to:

- Apply the binomial option pricing models to value European and American type options.
- 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.
- Extend the binomial option pricing models to value various types complex options.

Final Exam

Assessment Type ¹: Examination

Indicative Time on Task ²: 28 hours

Due: **Examination period**

Weighting: **60%**

The final examination will be closed book, a three-hour written paper with ten minutes reading time, to be held during the University Examination period.

On successful completion you will be able to:

- Apply decision making via utility functions, and describe rational expectations theory, rational choice theory, behavioural economics and three different forms of market efficiency.
- 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.
- Apply the binomial option pricing models to value European and American type options.
- 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.
- Use various methods of run-off triangles for valuation and reserving of liabilities.
- Extend the binomial option pricing models to value various types complex options.

¹ If you need help with your assignment, please contact:

- the academic teaching staff in your unit for guidance in understanding or completing this type of assessment
- the [Writing Centre](#) for academic skills support.

² Indicative time-on-task is an estimate of the time required for completion of the assessment task and is subject to individual variation

Delivery and Resources

CLASSES

This unit consists of 4 hours of seminars per week. The seminars will be recorded and made available to students who are unable to attend.

If you are enrolled into the "Online-flexible" attendance mode, you are not required to register into any classes as there is no real-time live online class. A lecture recording will be made available to students after the on-campus class is held

REQUIRED and RECOMMENDED TEXTS and/or Materials

Required texts

Seminar materials are available for downloading from ACST3087 teaching website.

Recommended textbooks

- Investment Science; David Luenberger
- Choices, Values, and Frames; Amos Tversky and Daniel Kahneman
- 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

Optional ActEd material

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

Unit Schedule

Week	Lecture Topics
1.	Utility Theory, Decision making via utility functions
2.	Stochastic dominance, Behavioural finance
3.	Mean-Variance portfolio theory, The CAPM
4.	Single/Multi index models, Arbitrage pricing theory (APT)
5.	Measurements of investment risk
6.	Options, Single/Multi period Binomial option pricing model (Assignment due - Wednesday 30 March 12:00noon)
7.	American option pricing via Binomial model
Semester Break	
8.	Exotic option pricing via Binomial model
9.	Runoff triangle
10.	Runoff triangle
11.	Class Test (Tuesday 17 May 3:00-5:00pm)
12.	Stochastic interest rate models / Efficient market hypothesis
13.	Revision

Policies and Procedures

Macquarie University policies and procedures are accessible from [Policy Central \(https://policies.mq.edu.au\)](https://policies.mq.edu.au). 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](#)
- [Assessment Procedure](#)
- [Complaints Resolution Procedure for Students and Members of the Public](#)
- [Special Consideration Policy](#)

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

To find other policies relating to Teaching and Learning, visit [Policy Central \(https://policies.mq.edu.au\)](https://policies.mq.edu.au) and use the [search tool](#).

Student Code of Conduct

Macquarie University students have a responsibility to be familiar with the Student Code of Conduct: <https://students.mq.edu.au/admin/other-resources/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

Academic Integrity

At Macquarie, we believe [academic integrity](#) – honesty, respect, trust, responsibility, fairness and courage – is at the core of learning, teaching and research. We recognise that meeting the expectations required to complete your assessments can be challenging. So, we offer you a range of resources and services to help you reach your potential, including free [online writing and maths support](#), [academic skills development](#) and [wellbeing consultations](#).

Student Support

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

The Writing Centre

The Writing Centre provides resources to develop your English language proficiency, academic writing, and communication skills.

- [Workshops](#)
- [Chat with a WriteWISE peer writing leader](#)
- [Access StudyWISE](#)
- [Upload an assignment to Studiosity](#)
- [Complete the 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

Macquarie University offers a range of [Student Support Services](#) including:

- [IT Support](#)
- [Accessibility and disability support](#) with study
- Mental health [support](#)
- [Safety support](#) to respond to bullying, harassment, sexual harassment and sexual assault
- [Social support including information about finances, tenancy and legal issues](#)

Student Enquiries

Got a question? Ask us via [AskMQ](#), or contact [Service Connect](#).

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.