# ACST3006
## Quantitative Asset and Liability Modelling 1

Session 1, In person-scheduled-weekday, North Ryde 2023

*Department of Actuarial Studies and Business Analytics*

## Contents

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>General Information</td>
<td>2</td>
</tr>
<tr>
<td>Learning Outcomes</td>
<td>2</td>
</tr>
<tr>
<td>General Assessment Information</td>
<td>3</td>
</tr>
<tr>
<td>Assessment Tasks</td>
<td>3</td>
</tr>
<tr>
<td>Delivery and Resources</td>
<td>5</td>
</tr>
<tr>
<td>Unit Schedule</td>
<td>6</td>
</tr>
<tr>
<td>Policies and Procedures</td>
<td>6</td>
</tr>
<tr>
<td>Changes since First Published</td>
<td>8</td>
</tr>
</tbody>
</table>

## Disclaimer

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General Information

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

Credit points
10

Prerequisites
(ACST202 or ACST2002) and (STAT272 or STAT2372)

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 ACST3006 and ACST3007 (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.

### General Assessment Information

**Late Assessment Submission Penalty (written assessments)**

Unless a Special Consideration request has been submitted and approved, a 5% penalty (of the total possible mark) will be applied each day a written assessment is not submitted, up until the 7th day (including weekends). After the 7th day, a grade of ‘0’ will be awarded even if the assessment is submitted. Submission time for all written assessments is set at 11.55pm. A 1-hour grace period is provided to students who experience a technical concern.

For any late submissions of time-sensitive tasks, such as scheduled tests/exams, performance assessments/presentations, and/or scheduled practical assessments/labs, students need to submit an application for **Special Consideration**.

### Assessment Tasks

<table>
<thead>
<tr>
<th>Name</th>
<th>Weighting</th>
<th>Hurdle</th>
<th>Due</th>
</tr>
</thead>
<tbody>
<tr>
<td>Assignment</td>
<td>20%</td>
<td>No</td>
<td>Tuesday 28 March 11:55pm</td>
</tr>
<tr>
<td>Class Test</td>
<td>20%</td>
<td>No</td>
<td>Tuesday 16 May 9:00am</td>
</tr>
<tr>
<td>Final Exam</td>
<td>60%</td>
<td>No</td>
<td>Examination Period</td>
</tr>
</tbody>
</table>

### Assignment

Assessment Type 1: Quantitative analysis task
Indicative Time on Task 2: 20 hours
Due: **Tuesday 28 March 11:55pm**
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 16 May 9:00am
Weighting: 20%

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

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.

Final Exam
Assessment Type 1: Examination
Indicative Time on Task 2: 28 hours
Due: Examination Period
Weighting: 60%

The final examination will be a three-hour written exam 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.

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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

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**Delivery and Resources**

The timetable for classes can be found on the University website at:
https://timetables.mq.edu.au/2023/

There is no required textbook.

Unit materials are available for download from iLearn.

**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

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, Options
6. Single/Multi period Binomial option pricing model
   (Assignment due - Tuesday 28 March 11:55pm)
7. American/Exotic option pricing via Binomial model
8. Semester Break
9. ANZAC Day
10. Exotic option pricing via Binomial model, Run-off triangles
11. Run-off triangles
12. Class Test (Tuesday 16 May 9:00-10.30am), Stochastic interest rate models
13. Stochastic interest rate models / Efficient market hypothesis
14. Revision

Policies and Procedures

Macquarie University policies and procedures are accessible from Policy Central (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). 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).
Student Support

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 Advocacy** provides independent advice on MQ policies, procedures, and processes

### 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/](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](https://unitguides.mq.edu.au/unit_offerings/155461/unit_guide/print).

### Changes since First Published

<table>
<thead>
<tr>
<th>Date</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>06/02/2023</td>
<td>Nil changes</td>
</tr>
</tbody>
</table>