# AFIN2070

**Stochastic Methods in Applied Finance**

Session 1, In person-scheduled-weekday, North Ryde 2024

*Department of Applied Finance*

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## Disclaimer

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General Information

Unit convenor and teaching staff
Hieu Nguyen
h.nguyen@mq.edu.au

Credit points
10

Prerequisites
50cp at 1000 level or above including (AFIN100 or AFIN102 or AFIN1002 or ACST152 or ACST1052) and (STAT150 or STAT1250 or STAT170 or STAT1170 or STAT171 or STAT1371)

Corequisites

Co-badged status

Unit description
Quantitative modelling and analysis are significant components in the discipline of applied finance. The models employed by practitioners and researchers are based on assumptions about the stochastic properties of financial variables and time series. This unit covers a variety of stochastic models for use in applied finance and includes extensive use of Excel spreadsheets. The topics include discrete and continuous probability distributions, extreme events, joint probability distributions, copulas, Bayesian analysis, regression models, time series models, and risk-neutral pricing.

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: Use a range of probability distributions to model different financial variables.
ULO2: Assess the dependence between financial variables with suitable statistical tools.
ULO3: Apply regression models and time series models to various financial time series.
ULO4: Examine the concepts of no-arbitrage principle and risk-neutral pricing.
ULO5: Perform mathematical computations on Excel spreadsheets for practical problems.
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 apply for Special Consideration.

Assessment Tasks

<table>
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<th>Name</th>
<th>Weighting</th>
<th>Hurdle</th>
<th>Due</th>
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<tr>
<td>Mid Session Test</td>
<td>20%</td>
<td>No</td>
<td>Week 8</td>
</tr>
<tr>
<td>Assignment</td>
<td>30%</td>
<td>No</td>
<td>Week 10</td>
</tr>
<tr>
<td>Final Examination</td>
<td>50%</td>
<td>No</td>
<td>Central exam period</td>
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Mid Session Test

Assessment Type ¹: Quiz/Test
Indicative Time on Task ²: 12 hours
Due: Week 8
Weighting: 20%

A practical test of 60 minutes will be held to give students practice on a summative task and to provide feedback on their progress midway through the session.

On successful completion you will be able to:
  • Use a range of probability distributions to model different financial variables.
  • Assess the dependence between financial variables with suitable statistical tools.
  • Apply regression models and time series models to various financial time series.

Assignment

Assessment Type ¹: Quantitative analysis task
Indicative Time on Task ²: 15 hours
Due: Week 10
Weighting: 30%

The assignment will cover quantitative analysis of the materials taught in the class.
On successful completion you will be able to:

- Use a range of probability distributions to model different financial variables.
- Assess the dependence between financial variables with suitable statistical tools.
- Apply regression models and time series models to various financial time series.
- Examine the concepts of no-arbitrage principle and risk-neutral pricing.

Final Examination

Assessment Type: Examination
Indicative Time on Task: 25 hours
Due: Central exam period
Weighting: 50%

A two hour exam will be held during the University Examination Period.

On successful completion you will be able to:

- Use a range of probability distributions to model different financial variables.
- Assess the dependence between financial variables with suitable statistical tools.
- Apply regression models and time series models to various financial time series.
- Examine the concepts of no-arbitrage principle and risk-neutral pricing.
- Perform mathematical computations on Excel spreadsheets for practical problems.

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

Please find the details of delivery and resources in iLearn.

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
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) 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

https://unitguides.mq.edu.au/unit_offerings/167640/unit_guide/print 5
• 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 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/.

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.

Unit information based on version 2024.03 of the Handbook