AFIN8001

Finance Theory

Session 1, Online-scheduled-In person assessment, North Ryde 2025

Department of Applied Finance

Contents

General Information

Unit convenor and teaching staff
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Credit points
10

Prerequisites
Admission to GradCertResBus or GradDipResBus

Corequisites

Co-badged status

Unit description
This unit is designed to introduce students to the major models of asset pricing and to rational expectations models. By using various asset pricing models, the unit will examine the economic intuition behind each model as well as providing a mathematically rigorous derivation of the model. The important features of these models, and their testable implications, will also be discussed.

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: Ilustrate and apply modern portfolio theory.

ULO2: Examine discrete time asset pricing models, like CAPM, APT, State Preference models and the Lucas model, and explain the economic intuition behind each model.

ULO3: Evaluate continuous time models like Black-Scholes Pricing model, Merton model, Breeden model and CIR model.

ULO4: Understand advanced rational expectations models including Grossman model, Admati model, Kyle model and the extensions.

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

Name	Weighting	Hurdle	Due
Final Examination	60%	No	June 5th
Assignment	40%	No	1st March; 5th April; 3rd May

Final Examination

Assessment Type [1]: Examination
Indicative Time on Task [2]: 20 hours
Due: **June 5th**
Weighting: **60%**

A 3 hour exam will be held at a designated time.

On successful completion you will be able to:

- Ilustrate and apply modern portfolio theory.
- Examine discrete time asset pricing models, like CAPM, APT, State Preference models and the Lucas model, and explain the economic intuition behind each model.
- Evaluate continuous time models like Black-Scholes Pricing model, Merton model, Breeden model and CIR model.
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Assignment

Assessment Type [1]: Project
Indicative Time on Task [2]: 30 hours
Due: **1st March; 5th April; 3rd May**
Weighting: **40%**

The assignment includes quantitative and qualitative analysis, produce a report of 2500 - 3500 words and/or presentation in class.

On successful completion you will be able to:

- Ilustrate and apply modern portfolio theory.
- Examine discrete time asset pricing models, like CAPM, APT, State Preference models and the Lucas model, and explain the economic intuition behind each model.
- Evaluate continuous time models like Black-Scholes Pricing model, Merton model, Breeden model and CIR model.
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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

Delivery and Resources

Textbooks

There are no required texts for this course. The following books are useful references:

- Huang and Litzenberger, 1988 *Foundations for Financial Economics*, North-Holland (Elsevier Science Publishing, New York).
- Ingersoll, 1987 *Theory of Financial Decision Making*, Rowan and Littlefield (Totowa, NJ).
- Cochrane, 2005 *Asset Pricing Revised Edition*, Princeton University Press.
- O'Hara, 1995 *Market Microstructure Theory*, Blackwell Publishers, Cambridge Mass.

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) 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 connect.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/

Academic Success

Academic Success 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 Advocacy provides independent advice on MQ policies, procedures, and processes

Student Enquiries

Got a question? Ask us via the Service Connect Portal, 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 2025.02 of the Handbook