## FINM1001
### Foundations of Finance

#### Course Description
Foundations of Finance is designed to familiarise students with the components of the financial system and to introduce them to the three basic ideas underpinning finance: time value of money; diversification; and, arbitrage. The aim of the course is to provide students with an introductory exposure to financial transactions, institutions and markets, including money markets, stock markets, foreign exchange, derivative markets and risk management contracts. It provides students with a solid foundation for further studies in the field of finance.

<table>
<thead>
<tr>
<th>Semester and Year</th>
<th>S1 2016</th>
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<tbody>
<tr>
<td>Mode of Delivery</td>
<td>Two-hour lecture, one hour tutorial and one hour workshop per week on campus. Lectures and workshops will be recorded and available on Wattle.</td>
</tr>
<tr>
<td>Prerequisites</td>
<td>To enrol in this course you must have completed or be currently enrolled in STAT1008 Quantitative Research Methods or STAT1003 Statistical Techniques</td>
</tr>
<tr>
<td>Incompatible Courses</td>
<td>N/A</td>
</tr>
<tr>
<td>Course Convener</td>
<td>Dr Jozef Drienko</td>
</tr>
<tr>
<td>Office Location:</td>
<td>Room 4.05, CBE Building 26C</td>
</tr>
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<td>Phone:</td>
<td>6125 7298</td>
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<td>Email:</td>
<td><a href="mailto:jozef.drienko@anu.edu.au">jozef.drienko@anu.edu.au</a></td>
</tr>
<tr>
<td>Consultation hours:</td>
<td>Monday, 2pm – 5pm</td>
</tr>
<tr>
<td>Research interests</td>
<td>Analyst forecasting, asset pricing, market efficiency</td>
</tr>
<tr>
<td>Tutor(s)</td>
<td>Tutor information will be provided on Wattle</td>
</tr>
<tr>
<td>Student Administrators</td>
<td>Maria Lander (<a href="mailto:maria.lander@anu.edu.au">maria.lander@anu.edu.au</a>)</td>
</tr>
<tr>
<td></td>
<td>Office location: Room 4.51, CBE Building 26C</td>
</tr>
<tr>
<td></td>
<td>Office hours: 9am – 5pm</td>
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</table>
COURSE OVERVIEW

Learning Outcomes
On satisfying the requirements for this course, students will have the knowledge and skills to:

- Understand financial transactions, institutions and markets, including money markets, stock markets, foreign exchange, derivatives markets and contracts.
- Understand the ideas behind the time value of money and be able to calculate the value of cash flows relating to a number of financial instruments.
- Understand the concept of diversification, including the risk and return relationship and have the ability to calculate optimal weights for a portfolio comprising of two financial assets.
- Understand concepts of arbitrage, and utilise derivatives for risk management purposes.

Research-Led Teaching
Students undertaking this course will be taught fundamental skills in Finance that will be applied to real life applications. Students will also be shown how these techniques are applied to research today.

Continuous Improvement
We use feedback from students, professional bodies and staff to make regular improvements to the course. In response to this feedback, design improvements from previous versions of the course include:

- Item 1: Adding weekly workshops to go through additional problem sets. This enables more difficult problems to be worked through in a group environment.
- Item 2: Spreading the final arbitrage topic over four, as opposed to three weeks (specifically, the topics on Futures/Forwards and Options have been spread over three weeks, whereas they were previously covered in two). This is a result of feedback from students requesting that more time be spent on these concepts.

Student Feedback
ANU is committed to the demonstration of educational excellence and regularly seeks feedback from students. One of the key formal ways students have to provide feedback is through Student Experience of Learning Support (SELS) surveys. The feedback given in these surveys is anonymous and provides the Colleges, University Education Committee and Academic Board with opportunities to recognise excellent teaching, and opportunities for improvement.

For more information on student surveys at ANU and reports on the feedback provided on ANU courses, go to http://unistats.anu.edu.au/surveys/selt/students/ and http://unistats.anu.edu.au/surveys/selt/results/learning/

Policies
ANU has educational policies, procedures and guidelines, which are designed to ensure that staff and students are aware of the University’s academic standards, and implement them. You can find the University’s education policies and an explanatory glossary at: http://policies.anu.edu.au/
Students are expected to have read the Academic Misconduct Rules 2014 before the commencement of their course.

Other key policies include:

- Student Assessment (Coursework)
- Student Surveys and Evaluations

**Support for Students**
The University offers a number of support services for students. Information on these is available online from [http://students.anu.edu.au/studentlife/](http://students.anu.edu.au/studentlife/)

**Required Resources**

Students are required to source the following resources for the duration of the course:

- The course textbook
- A non-programmable calculator
## COURSE SCHEDULE

<table>
<thead>
<tr>
<th>Week</th>
<th>Summary of Activities</th>
<th>Notes</th>
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</table>
| 1    | **Topic:** Course Overview and an Introduction to Financial Markets  
      Activity: Lecture  
      Reading: Lecture Notes 1; CFA Code of Ethics, CFA Standards of Professional Conduct, Sections I and VII; Textbook (see p.5) |       |
| 2    | **Topic:** Time Value of Money – An Intro to Financial Mathematics  
      Activity: Lecture/Workshop/Tutorial (Tutorial 1 Questions)  
      Reading: Lecture Notes 2; Textbook (see p.5) |       |
| 3    | **Topic:** Time Value of Money – Valuing Shares  
      Activity: Lecture/Workshop/Tutorial (Tutorial 2 Questions)  
      Reading: Lecture Notes 3; Textbook (see p.5) | Quiz 1 |
| 4    | **Topic:** Time Value of Money – Valuing Debt Instruments  
      Activity: Lecture/Workshop/Tutorial (Tutorial 3 Questions)  
      Reading: Lecture Notes 4; Textbook (see p.5) | Quiz 2 |
| 5    | **Topic:** Time Value of Money – Making Investment Decisions  
      Activity: Lecture/Workshop/Tutorial (Tutorial 4 Questions)  
      Reading: Lecture Notes 5; Textbook (see p.5) | Public holiday on Monday – reschedule TBC |
| 6    | **Topic:** Diversification – Defining Risk and Understanding its Relationship with Return  
      Activity: Lecture/Tutorial (Tutorial 5 Questions)  
      Reading: Lecture Notes 6; Textbook (see p.5) | Public holiday on Friday – reschedule TBC |
| 7    | **Topic:** Diversification – Portfolio Theory  
      Activity: Lecture/ Tutorial (Tutorial 6 Questions)  
      Reading: Lecture Notes 7; Textbook (see p.5) | Public holiday on Monday – reschedule TBC Mid-Sem Exam¹ |
| 8    | **Topic:** Diversification – The Capital Asset Pricing Model (CAPM) and the Required Rate of Return for Risk  
      Activity: Lecture/Workshop/Tutorial (Tutorial 7 Questions)  
      Reading: Lecture Notes 8; Textbook (see p.5) | Quiz 3 |
| 9    | **Topic:** Arbitrage – Futures Contracts Part (A)  
      Activity: Lecture/Workshop/Tutorial (Tutorial 8 Questions)  
      Reading: Lecture Notes 9; Textbook (see p.5) | Public holiday on Monday – reschedule TBC |
| 10   | **Topic:** Arbitrage – Futures Contracts Part (B) and Options Contracts Part (A)  
      Activity: Lecture/Workshop/Tutorial (Tutorial 9 Questions)  
      Reading: Lecture Notes 10; Textbook (see p.5) | Quiz 4 |
| 11   | **Topic:** Arbitrage – Options Contracts Part (B)  
      Activity: Lecture/Workshop/Tutorial (Tutorial 10 Questions)  
      Reading: Lecture Notes 11; Textbook (see p.5) | Quiz 5 |
| 12   | **Topic:** Arbitrage – Forwards, Futures and Options Contracts as Tools for Risk Management.  
      Activity: Lecture/Workshop/Tutorial (Tutorial 11 Questions)  
      Reading: Lecture Notes 12; Textbook (see p.5) |       |
| 13   | **Topic:** Review  
      Activity: Lecture/Tutorial (Tutorial 12 Questions)  
      Reading: Lecture Notes 13 |       |

¹ The timing of the mid-semester examination is determined by the examinations section. This information will be given to students as soon as it is received by the lecturer. Please be aware that the exam may not be in this week if instructed by the examinations section.
## COURSE ASSESSMENT

### Assessment Summary

<table>
<thead>
<tr>
<th>Item</th>
<th>Title</th>
<th>Value</th>
<th>Due Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>In-Tutorial Quizzes</td>
<td>15%</td>
<td>See Weekly Schedule</td>
</tr>
<tr>
<td>2</td>
<td>Mid-Semester Examination</td>
<td>25% (or 0% if not attempted/redeemed)</td>
<td>TBA</td>
</tr>
<tr>
<td>3</td>
<td>Final Examination</td>
<td>60% (or 85% if Mid-Semester not attempted/redeemed)</td>
<td>TBA</td>
</tr>
</tbody>
</table>

### Assessment Task 1: In-Tutorial Quizzes

**Details of task:**
- Students will be required to sit 5 in-tutorial quizzes throughout the semester.
- These quizzes will be run according to the schedule on page 4 of this outline (unless otherwise stated by the lecturer).
- The quizzes will be 10 – 15 minutes in duration, and held at the end of the tutorial.
- Students MUST sit the quiz in the tutorial they are enrolled in; otherwise the quiz will not count.
- The content for the quizzes will be limited to the required material for the topic on which the tutorial is held (previous week’s lecture material).
- Students’ best 4 marks will count towards 15% of their overall course grade.
- Students will receive their marked quizzes back in the tutorial the following week.
- This assessment task needs to be completed in pen (NOT PENCIL).

**Note:** Students are required to prepare worked solutions to tutorial questions, bring these solutions to tutorials, and be prepared to participate in tutorial discussions. This is an important step in preparing for the tutorial quizzes.

### Assessment Task 2: Mid-Semester Exam

**Details of task:**
- This exam is optional and redeemable for students.
- It is a closed book exam, with no formula sheet provided.
- The questions will be a mixture of theory and practical questions.
- Students will need to review and revise all material covered in lectures 1 to 5, inclusive, and corresponding workshops and tutorials.
- The mid-semester exam will count towards either 0% or 25% of a student’s overall course grade.
- More details regarding the exam will be provided as the exam approaches.
- This assessment task needs to be completed in pen (NOT PENCIL).

**Note:** There will be no special examinations for the mid-semester exam. Instead the weighting will be moved to the final exam.

### Assessment Task 3: Final Examination

The final examination will be closed-book and based on all the work covered throughout the duration of the semester. The final examination is worth 60% (or 85% if the mid-semester exam is redeemed) of the overall course grade. The exam will include a mixture of theoretical and numerical questions. Students will be provided with further details regarding the exam as it approaches. This assessment task needs to be completed in pen (NOT PENCIL).
Scaling
Your final mark for the course will be based on the raw marks allocated for each quiz or examination. However, your final mark may not be the same number as produced by that formula, as marks may be scaled. Any scaling applied will preserve the rank order of raw marks (i.e. if your raw mark exceeds that of another student, then your scaled mark will exceed or equal the scaled mark of that student), and may be either up or down.

READING LISTS

Required readings from this textbook are as follows:

<table>
<thead>
<tr>
<th>Lecture</th>
<th>Readings</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Module 1, Pages 1-22</td>
</tr>
</tbody>
</table>
| 2       | Module 2, Pages 23-49 and 62-90  
  ➢ Omit pages 33-34 (continuous compounding); 46-48 (equivalent annuity); and, 79-80 (growing annuity) |
| 3       | Module 2, Pages 100-120 and 169-191  
  ➢ Omit pages 106-109 (bond valuation); 116-117 (bond holders’ expected rate of return); 178-181 (dividends versus investment and growth, but read changing growth rates on pg. 181); and, 186-187 (share repurchases and the total payout model). |
| 4       | Module 2, Pages 106-109, 116-117 and 133-157  
  ➢ Omit pages 136-138 (risk-free interest rates section). |
| 5       | Module 2, Pages 196-201, 220-223 |
| 6       | Module 3, Pages 235-238, 242-248 and 286-298 |
| 7       | Module 3, Pages 259-263, 299-305 and 337-349 |
| 8       | Module 3, Pages 265-275, 306-317 and 349-364 |
| 9 and 10 (Futures and Forwards Contracts) | Module 4, Pages 404-425 |
| 10 and 11 (Options Contracts) | Module 4, Pages 373-383 and 394-398 |
| 12      | Module 4, Pages 434-437, 443(hedging with derivatives)-456(omit swaps), 459. |
TUTORIAL SEMINAR REGISTRATION

Tutorial signup for this course will be done via the Wattle website. Detailed information about signup times will be provided on Wattle or during your first lecture. When tutorials are available for enrolment, follow these steps:

1. Log on to Wattle, and go to the course site.
2. Click on the link “Tutorial enrolment”.
3. On the right of the screen, click on the tab “Become Member of ……” for the tutorial class you wish to enter.
4. Confirm your choice.

If you need to change your enrolment, you will be able to do so by clicking on the tab “Leave group…” and then re-enrol in another group. You will not be able to enrol in groups that have reached their maximum number. Please note that enrolment in ISIS must be finalised for you to have access to Wattle.

COMMUNICATION

Students will be given feedback in the following forms in this course:

- Written and verbal feedback will be addressed to:
  - The whole class; and.
  - To individuals.

Email

If necessary, the lecturers and tutors for this course will contact students on their official ANU student email address. Information about your enrolment and fees from the Registrar and Student Services’ office will also be sent to this email address.

Announcements

Students are expected to check the Wattle site for announcements about this course, e.g. changes to timetables or notifications of cancellations. Notifications of emergency cancellations of lectures or tutorials will be posted on the door of the relevant room.

Course URLs

More information about this course may be found on:
- Programs and Courses (http://programsandcourses.anu.edu.au)
- the College of Business and Economics website (http://cbe.anu.edu/courses) and
- Wattle (https://wattle.anu.edu.au), the University’s online learning environment. Log on to Wattle using your student number and your ISIS password.