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### ARE YOUR DETAILS UP TO DATE?

Please send your change of address and telephone to:

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## DEPARTMENT OF FINANCE ALUMNI NEWSLETTER AUGUST 2008

### DERIVATIVES DOWN UNDER – 3RD ANNUAL CONFERENCE OF THE MDRG

Once again, derivatives trading has come under close scrutiny. While certainly not the only target in the sub-prime blame game, the intricacies (and mysteries) of CDOs and other asset-backed securities have attracted ongoing negative attention in the popular press. The need for analysis and reflection on the benefits of those advanced derivative assets has therefore never been felt stronger.

Now in its third year, The Melbourne Derivatives Research Group recently organised and hosted the *Derivatives Down Under Conference* on the latest advances in derivatives research, with a particular focus on the “hot potatoes.” The conference was very well attended by the finance industry and academia. To cater for this “broad-interest” audience, the program consisted of four themes (Applications of Derivatives Analysis; Pricing Credit Risk; Co-Movement of Derivatives

and Spot Prices; and Computational Finance) with two parallel sessions in each theme.

Overseas speakers included Marti Subrahmanyam (NYU Stern) who proposed a new measure of observed price dispersion to better quantify liquidity in OTC bond markets; Richard Stapleton (Manchester University) who showed how an extension to the Libor Market Model better captures market pricing of caps and floors; Tim Adam (NUS) who analysed the impact of financial constraints on gold mining firms’ hedging strategies; Daniel Rösch (University of Hannover) who evaluated the credit risk of CDOs by applying two prominent prototypes for credit ratings namely the point-in-time and through-the-cycle approach; Ai-ru Cheng (UC Santa Cruz) who investigated how macroeconomic variables perform in forecasting of the US Treasury and defaultable bond returns; Margarethe

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Left to Right: Jin-Chuan Duan, Margarethe Rammerstorfer, Mark Joshi, Marti Subrahmanyam, Bruce Grundy, Simon Benninga, Ramzi Ben-Abdallah

## DEPARTMENT UPDATE FOR 2008 – SEMESTER 1



Head of Department  
Professor Paul Kofman

With the Melbourne Model well and truly underway, it has been a thrill ride. Uncertainty about student numbers, a new one-stop-shop Commerce Student Centre, and a new generation of “breadth-seeking” undergraduate students have kept us on our toes. The first signs indicate that finance subjects remain as popular as ever – with our introductory Finance unit featuring in the top 10 of breadth choices for non-commerce students. A welcome boost to our teaching spirits was given at the annual Dean’s Awards night. Jessica Curtis won the Faculty Award for

Excellence in Tutoring for 2007, while Les Coleman and Sean Pinder took out the Team Award for Excellence in Teaching for 2007.

We welcomed two new colleagues, Dr Carsten Murawski (PhD Zurich) as a Lecturer specialising in the institutional characteristics of derivatives markets, financial institutions, and on financial stability, and Dr Jonathan Dark (PhD Newcastle) as a Senior Lecturer specialising in dynamic hedging and long memory involatility. March and April were the usual busy months for visitors gracing our shores, including Bryan Macgregor (University of Aberdeen), Richard Stapleton (University of Manchester), Marti Subrahmanyam (NYU Stern) and Daniel Rösch (University of Hannover). Simon Benninga’s (Tel Aviv University) visit matched the expectations expressed in the previous newsletter, returning exceptionally high student evaluations for his Financial Spreadsheets subject which is often found hard to “sell” to professional Masters students.

Capitalising on the confluence of prominent visitors, the Melbourne Derivatives Research Group organised and hosted the third annual *Derivatives Down Under Conference*.

In addition to our professorial visitors, the prominent speakers included professors Jin-Chuan Duan (NUS and University of Toronto), Ai-ru Cheng (UC Santa Cruz) and Margarethe Rammerstorfer (Vienna University) and Ramzi Ben-Abdallah (HEC Montreal). It was very pleasing to welcome speakers, discussants and participants from amongst our PhD and Honours students, as well as a fair few of our finance alumni among the many finance industry participants attending the conference and sending us favourable feedback. Other research news includes the double whammy at the recent AFAANZ conference, where Dr Simba Chang (with co-authors, including two of our former PhD students) was awarded the Peter Brownell Award for best publication in *Accounting and Finance* for 2007, while Dr Sean Pinder (with co-author) received a best conference paper award. Dr Chang’s award follows the even better news of his second paper accepted for publication in the pinnacle of finance journals, the *Journal of Finance*. With three further PhD completions (Hong Feng Zhang, Tariq Haque, and Brett Shanahan), this has certainly been a productive Autumn. ■

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### DERIVATIVES DOWN UNDER – 3RD ANNUAL CONFERENCE OF THE MDRG CONTINUED

Rammerstorfer (Vienna University) who used a real options approach to examine the dependence and tradeoffs between investments and price cap regulation, quality aspects, as well as market concentration; Jin-Chuan Duan (NUS and University of Toronto) who investigated the importance of co-integration and maturity effects in pricing Heating Oil/Crude and Gasoline/Crude spread options; Klaus Buhr (Massey University) who investigated the information content of the S&P/ASX200 index and option markets in the price discovery process; and Ramzi Ben-Abdallah (HEC Montreal) who applied the True Notional Bond System (TNBS) for the theoretical pricing of the Chicago Board of Trade Treasury-bond futures to better capture the inter-dependent embedded delivery options.

Local speakers included Jamie

Alcock (University of Queensland) who explored the statistical properties of an extended nonparametric method of pricing American options; and MDRG members, Mark Joshi (University of Melbourne) who introduced a new calibration methodology that allows perfect fitting of the displaced diffusion LIBOR market model to caplets and co-terminal swaptions; Jonathan Dark (University of Melbourne) who proposed a bivariate tobit-FIGARCH model with maturity effects to estimate dynamic hedge ratios; and Brett Shanahan (University of Melbourne) who introduced a polynomial which can approximate option prices for volatility specifications which are generalised functions of a mean-reverting process.

The Luncheon Address was given by Peter Monkhouse (BHP Billiton) who spoke on the interface and

frictions between Investment, Real Options and Regulations.

Papers and presentations from this conference are still available on our website:

<http://www.finance.unimelb.edu.au/Research/MDRG/DDU.html> ■



Peter Monkhouse (BHP Billiton) and Bruce Grundy.

## PROFESSIONAL PROGRAMS UPDATE



MAF and MFM – our dynamic duo  
Sean Pinder and John Handley

As I welcomed the second semester intake of students into the department's professional postgraduate programs and outlined the diverse range of elective subjects available to them, two things immediately occurred to me. Firstly, it is clearly apparent that our students are well-served by the diverse range of offerings available to them. Secondly, the department is extremely fortunate to be able to rely upon a team of highly-motivated and professionally and academically qualified adjunct staff members to deliver those subjects. These invaluable members of staff bring highly specialized skills and in-depth knowledge relating to the operation of financial markets *today*. It is largely due to their contributions that we are able to ensure the continued relevance and quality of our Masters offerings. Our adjunct faculty consists of practitioners currently engaged at the very highest levels in the finance sector. We also have on board a select group of very high profile academics from around the world, each having an extremely strong reputation in both researching and delivering material in their area of expertise. This mix of adjunct staff provides students with a body of knowledge about the latest developments in products and techniques straight from the markets combined with the delivery of rock-solid contemporary finance theory that ensures that all of our students will graduate with what is required to succeed not only in today's markets, but the uncertain markets of the future. ■

## INTRODUCING OUR INDUSTRY ADVISORY BOARD

With the advent of the Melbourne Model, it seemed timely to deliver on a long-standing strategic objective: the establishment of an Industry Advisory Board. To avoid interference with the objectives of the Faculty's IAB, the terms of reference are clearly defined around curriculum and career matters as they apply to and impact on our discipline. The Industry Advisory Board will provide advice on our curriculum, bring a wider finance profession perspective, provide advice on the professional relevance of the teaching, research and knowledge transfer activities, and generally provide advice and assistance to the Department of Finance in building strong relationships between our students and the finance profession.

IAB members are appointed in their own right as leaders in their profession, representing a cross-section of the finance profession in Melbourne. We are therefore proud to introduce our inaugural IAB members: Larry Gandler, Director of Equities Research at Credit Suisse Equities (Australia) Limited; Martin Krauskopf, Manager at Macquarie Capital Advisors of the Macquarie Group; Peter Monkhouse, Vice President Business Projects Iron Ore at BHP Billiton; Peter Wilmshurst, Senior Vice President Franklin Templeton Investments Australia and, Matt Wilson, Vice President Investment Banking at JP Morgan Australia Limited. Martin and Matt are Honours (Finance) alumni of The University of Melbourne. ■

## RESEARCH PROGRAMS UPDATE



Greg Schwann  
PhD Coordinator

Our PhD program in finance has the well deserved reputation of being hard. It is hard to get into; the coursework is hard; achieving confirmation is hard and, because our standards on research are high, completion is hard. The reason we make a PhD so hard is our commitment to produce the best trained and potentially the most productive financial researchers in Australia. This semester, three further students have shown that they are made of the "the right stuff" by completing their PhDs. Their names and their thesis titles follow:

Kim Loong Choo – *Information, Day Trading and Market Behaviour*

Hong Feng Zhang – *Shareholder rights, Firm Performance and Information Flow*

Tariq Hassan Haque – *Switching and Leader Follower Effects in the Australian Equity*

Our commitment to excellence is also mirrored in our MCom (Finance) program. It is also hard to get into and the students are driven to do well in their coursework and in their

research. Despite difficult admission, we have a record number of MCom students in 2008. Twenty-nine masters students chose The University of Melbourne as their educational choice. As in the PhD, completion of an MCom is an arduous process. Seven students submitted their research for examination in July 2008. Their topics are listed below. These topics reflect their diverse interests.

- The Integration of the Australian Real Estate Market and Stock Market
- Variability In Commodity Prices: Is There Any Seasonality in Gold Price Indices?
- The Performance of Japan's Real Estate Investment Trusts
- Gross International Investment Positions: A Cross-Sectional Study
- Does Market Timing Affect Australian Firms' Capital Structure?
- Long Memory and Efficiency of Foreign Exchange Market: An Empirical Study of Euro-Currencies Markets
- How Asymmetric Information Affects the Price of Properties

The research programs in finance will remain 'hard' because this promotes excellence and this is what we want to be known for. ■

## HONOURS UPDATE



Ian O'Connor

In 2008, several changes have been made to the Finance Honours program. Advanced Corporate Finance is now run in semester 1, meaning that the Advanced Corporate, Advanced Investments, and Advanced Derivatives triple, plus Research Methods, is now covered in the one semester. This combination of subjects early in the year provides students with a richer range of finance material to motivate topic selection for the Research Essay. The change in sequencing of subjects, has been readily accepted by the 2008 honours cohort, as the Quality of Teaching Survey results recorded the highest average rankings ever. We should see more corporate finance based essays in semester 2.

Since 2002, there has been an annual Honours Alumni Dinner, which was also attended by the current year honours students. The dinner was organized and conducted by the Department. Usually held on campus in early August at University House, the dinner has experienced decreasing numbers of participants from the members of the Alumni. To provide an opportunity for transition, there will not be an Alumni Dinner in 2008. In 2009, it is proposed that the dinner recommence, this time organized by the Alumni. Students from the 2008 year will be encouraged to carry the flag, and organize the event in 2009. ■

## THE MELBOURNE CENTRE FOR FINANCIAL STUDIES – UPDATE FROM THE TOWN

As we mentioned in the last newsletter, the Melbourne Centre for Financial Studies has developed a reputation as a vehicle to facilitate and communicate high quality applied finance research of direct interest to the finance profession. The Melbourne Centre has also become established as a major organiser and convener of forums, workshops, symposia and conferences for industry, government and academe to interact and to exchange knowledge. It is therefore hardly surprising that the Melbourne finance profession has continued to embrace the Melbourne Centre as the first point of contact with the finance academics at the three Melbourne consortium universities. In the past year, the Melbourne Centre was involved in organizing 29 events including 7 conferences and symposiums, as well as a series of free finance forums, seminars and workshops.

In the first half of 2008, the Melbourne Centre highlights included:

- the June 2008 *Economic Papers* special issue with papers from the 2007 Melbourne Centre conference on “Financial Regulation: Costs, Benefits and the Process of Regulatory Change,” which was sponsored and co-organised by ASIC, APRA and FICA;
- the “Financial Centres of the Future” symposium held in May, featuring speeches by Mr John Stewart (CEO, NAB) and the Hon. Dr. Craig Emerson (Minister for the Service Economy) and panel sessions involving leading practitioners and academics sponsored by, and arranged with the support of NAB, IFSA, AFMA, ABA and Finsia. More than 200 academics and industry participants attended this high profile event.
- a conference combined with a research workshop co-organized

with the AIST on “Superannuation Board Governance: Search for a Super Model” held in May which attracted a 170 attendees.

- the 13th Melbourne Money and Finance Conference, which was sponsored by ANZ, CBA, NAB, APRA and the RBA held in June on “Recent Developments in Australian Debt Markets.” Papers presented at this conference are forthcoming in a special issue of JASSA.
- Consultancy work by Director Prof Kevin Davis for Treasury on “Financial Reform in the APEC Region: A Catalogue of Policy Choices” being endorsed by the meeting of APEC Finance Ministers and forming the basis for development of a web resource for APEC finance officials by the Melbourne APEC Finance Centre.

Since commencement, the Melbourne Centre has funded 55 research proposals by academics from the consortium Universities. The Melbourne Centre prioritises those proposals in 3 core research areas of Funds Management, Financial Regulation and New Financial Markets and Instruments, each of which has strong interest for industry – as expressed by the Industry Advisory Board. It is pleasing that a number of projects funded have already had papers accepted or published in leading academic journals. Work in progress and final reports also found their way to the finance industry as they have been presented at dedicated research workshops organized by the Melbourne Centre.

More: [www.melbournecentre.com.au](http://www.melbournecentre.com.au)

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