



## INSIDE

- Department and program updates
- Melbourne Centre for Financial Studies: Call to Alumni
- Recent News

### SEAN PINDER - FINANCE LECTURER OF THE YEAR

The Department of Finance congratulates Dr Sean Pinder who was awarded the Pearson Education Accounting/Finance Lecturer of the Year Award, endorsed by AFAANZ and judged by the Education Directors of CPA Australia, the ICAA and the NZICA.

The announcement was made at the recent AFAANZ meetings in Brisbane.

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## CORRELATIONS AND COPULAS – PUSHING THE BOUNDARIES OF RISK MANAGEMENT

### CONFERENCE REPORT

The days of portfolio allocation in the comfort of known diversification benefits have long since gone. In times of market turbulence and increasing volatilities, there is a tacit understanding that diversification benefits may evaporate when needed most. Correlations are found to strengthen under adverse market conditions. Market participants know this and make heuristic adjustments to their portfolio allocation algorithms. Finance academics have also come to the realisation that what is needed are conditional correlations.

The statistical concept of copulas turns out to be a particularly elegant, relatively straightforward, and flexible model to capture these conditional correlations.

In cooperation with the Financial Integrity Research Network and the School of Finance and Applied Statistics (ANU), the Melbourne Derivatives Research Group recently organised and hosted the Correlations and Copulas Conference on the latest advances in correlation modelling. The conference was very well attended by about 80 participants, neatly split between the finance industry and academia. To cater for this audience, the speakers presented a mix of theoretical advances and practical applications at the cutting edge of the correlation modelling literature and practice. Overseas speakers included Claudia Czado (Technical University of Munich) who showed how cascades of pair-copulae could be used to model multivariate dependence structures, and Kay Giesecke (Stanford University) who showed the use of calibration and



Head of Department and Conference Co-convenor, Professor Paul Kofman (L) with Conference speaker, Kay Giesecke, from Stanford University.

copulas in pricing and hedging credit derivatives. Interstate speakers included Robert Durand (UWA) on the detection of flight-to-quality with copula dependency; Richard Gerlach (University of Sydney) on dynamic hedging with copula-GARCH models; John van der Hoek (University of Adelaide) on distortions and calibration of copulas; Stefan Trueck (Macquarie University) on simulating copula-dependent credit migrations; and Rodney Wolff (QUT) on non-parametric moment-based copula estimation.

Papers and presentations from this conference are still available on our website: <http://www.finance.unimelb.edu.au/Research/riskmanagement.html>. Additional photos from the conference are included in the Department update on page 2. ■

# DEPARTMENT UPDATE FOR 2007 – SEMESTER 2



Head of Department  
Professor Paul Kofman

## ANOTHER YEAR GONE...

While 2007 had its challenges (with “students-on-seats” edging over 10,000 for the year), it also gave us some outstanding teaching and research achievements to reflect on. The first major achievement belongs to Dr Sean Pinder who was awarded the Pearson Education Accounting/Finance Lecturer of the Year Award at the recent AFAANZ meetings in Brisbane. Sean has been at the forefront of innovative teaching delivery, with FinanceNow! and Corporate Finance in Action as two successful examples of integrating web-based and practitioner delivery into our core teaching curriculum. The second major achievement concerned two successful ARC Discovery grants funding research projects for 2008-2010: one project will investigate Share



Correlations and Copulas Conference speaker, Claudia Czado from The Technical University of Munich



Professor Paul Kofman (L) and the Dean of the Faculty of Economics and Commerce, Professor Margaret Abernathy (R) launching the Correlations and Copulas Conference in September.

buybacks and information asymmetry: winners and losers; the other project will analyse Three decades of financial



Correlations and Copulas Conference speakers John van der Hoek from The University of Adelaide (L), and Robert Durand from the University of Western Australia (R)

distress and corporate restructuring in Australia. Both research teams were entirely made up of our departmental colleagues. These are great examples of cooperative research outcomes.

In August we welcomed a new colleague, Dr Ali Akyol, as a Lecturer to our Department. Ali holds a PhD from the University of Alabama, and his research interests cover corporate control and governance topics. Further personnel news includes the well deserved promotions of Dr Rayna Brown and Dr Les Coleman to Senior Lecturer. In the

latter half of the year, we hosted a further four prestigious international visitors to our Department: Professor Stephen Brown (Stern-NYU), Professor Dilip Madan (University of Maryland), Professor Ravi Jagannathan (Northwestern University) and Professor George Kester (Washington and Lee University) who visited us for a mix of teaching and research purposes. Next year, we will welcome Professor Simon Benninga (Tel Aviv University) to teach into our Master of Applied Finance program, in addition to our recurring visitors, Professor Richard Stapleton (University of Manchester) and Professor Marti Subrahmanyam (NYU). We intend for their visits to coincide with another one day conference hosted by the Melbourne Derivatives Research Group in mid-March.

In September, the Melbourne Derivatives Research Group jointly organised and hosted the Correlations and Copulas Conference on the latest advances in financial risk management. Keynote speakers included Professor Claudia Czado (Technical University of Munich) and Professor Kay Giesecke (Stanford University). It was very pleasing to welcome 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.

In addition to a number of high profile financial forums and workshops (including the hugely successful speech by Professor Terrance Odean from UCLA to a large audience of industry participants and academics), the Melbourne Centre for Financial Studies hosted the successful 12th Finsia-MCFS – Banking and Finance Conference attracting a mixed academic-practitioner audience. Further knowledge transfer news involves Professor Kevin Davis, who was appointed on the newly established Australia-New Zealand Shadow Financial Regulatory Committee which will review and provide policy advice on regulatory change for financial institutions and markets. To emphasize that our Knowledge Transfer efforts reach beyond our shores, Professor Kevin Davis’ comments on the subprime mortgage crisis appeared in the New York Times. ■

## PROFESSIONAL PROGRAMS UPDATE



*MAF and MFM - our dynamic duo  
Sean Pinder and John Handley*

### AN EXCITING TIME FOR THE DEPARTMENT'S PROFESSIONAL PROGRAMS

The last 12 months has been an exciting time for the professional Masters programs in the Department of Finance. The introduction of the Melbourne Model has brought around an increased awareness of the importance of quality postgraduate education. As you would be aware, it's a message that the Master of Financial Management and the Master of Applied Finance programs have been stressing for seven and fifteen years respectively, and the market is clearly aware of what we have been doing. To illustrate, as at the end of October applications for the Master of Financial Management and the Master of Applied Finance had increased above the comparable 2005 figures by 26% and 58% respectively.

The Faculty of Economics and Commerce has also joined in the efforts in providing the best quality postgraduate experience in the country through the recent establishment of the Melbourne Graduate School of Management [see: <http://www.ecom.unimelb.edu.au/melbournegsm/>]. In addition to the high quality educational standards that have always been a feature of our postgraduate degrees, our students will now have access to a level of service and support that is unparalleled in Graduate schools throughout the region. As one example of this, the Melbourne GSM's Graduate Careers Centre is the first faculty based, specialist unit in the University dedicated to assisting postgraduate students towards the best possible career outcomes. The Centre provides professional and career development

programs, including industry mentors, internships and employer days.

These are exciting times indeed for our professional programs and we look forward to their continued growth and success. ■

## RESEARCH PROGRAMS UPDATE



*Bruce Grundy  
PhD Coordinator*



*Harry Scheule  
MCom(Finance)  
Coordinator*

Associate Professor Greg Schwann, the co-ordinator of the doctoral and research masters programs in the Department of Finance has enjoyed a well-earned sabbatical in the second semester of 2007 in order to focus on his research so that he can again lead our research students in 2008. Harry Schuele has stepped in to assist the Masters of Commerce students and Bruce Grundy has helped out with our PhD students.

The Doctoral and Masters of Commerce research students of the Finance Department have enjoyed many successes in 2007, excelling in both the coursework and research components of their degrees. A large number of doctoral candidates will soon be completing and graduating. Astro Choo, Brett Shanahan, John Zhang, Tariq Haque, Mahmoud Agha and Michael Lui have recently presented their Completion Seminars. (Anyone who has ever devoted years to one task will appreciate how appropriate that title is.).

Our congratulations are extended to Iain Campbell MacLachlan on successfully completing the requirements of Doctor of Philosophy with his thesis entitled "An empirical study of corporate bond pricing with unobserved capital structure dynamics". Well done Iain!

A number of students who are at an earlier stage in their PhD programs have successfully identified and presented their thesis topics in a Confirmation Seminar. Sally Wang and Chang Liu are now well into the stage of converting a confirmed topic into a contribution to the discipline and in turn a publication in a leading journal.

The Master of Commerce by Coursework (Specialisation in Finance) is a first step into the department's PhD program. As such it attracts a limited number of highly qualified students. In the second semester, seven candidates were accepted who are currently busy preparing their research reports. We welcome

- Aashna Rahman (Variability In Commodity Prices: Is There Any Seasonality In Gold Price Indices?)
- Bin Liu (The Integration Of Australian Real Estate Market And Stock Market)
- Lan Xiang (Long Memory And Efficiency Of Foreign Exchange Market: An Empirical Study To Euro-Currencies Markets)
- Qian Liu (The Performance Of Japan's Real Estate Investment Trusts)
- Shu Qing Tao (Does Market Timing Affect Australian Firms' Capital Structure? )
- Tao Zhang (How The Asymmetric Information Affects The Price Of Properties)
- Zheng Wang (Gross International Investment Positions: A Cross-Sectional Study)

The research topics in brackets were selected by the students and represent the department's broad range of expertise in Finance.

In short, 2007 has been a great year for both the doctoral and masters programs. The large number of great applicants for the 2008 programs foretells a stellar year ahead. ■

## HONOURS UPDATE



*Ian O'Connor  
Honours  
Coordinator*

In mid August 2007, Andrew McCusker was one of forty students from Australia and New Zealand who participated in the National Honours Colloquium at the Australian School of Business, University of New South Wales. Participants at the Colloquium receive fully funded return economy airfare to Sydney, plus two nights accommodation at a four star hotel and all meals. Andrew's presentation was titled "Multiple Choice? An Industry Level Analysis of Equity Valuation Using Multiples". Andrew was supervised by Dr Simba Chang.

Congratulations also go to Stephanie Ong (2007) who is the Finance Honours Medal winner for 2007. Stephanie's essay topic was titled "Intermediaries in the IPO Process and Their Impact on Underpricing: What Do Investment Banks Truly Bring to the Table?", supervised by Dr André Gyax. The medal will be presented early in 2008.

We end 2007, with special thanks to Goldman Sachs JBWere for their sponsorship of the Finance Honours Retreat for the last two years. Sophie Hughes and Cristian Duclos, from GSJBW Human Resources made a tremendous contribution to the success of the Retreat, and helped the 2006 and 2007 honours intake get a taste of life in the investment banking arena. ■

## CALL TO ALUMNI: THE MELBOURNE CENTRE FOR FINANCIAL STUDIES

The Melbourne Centre for Financial Studies is a joint venture of Melbourne, Monash and RMIT Universities in conjunction with Finsia (The Financial Services Institute of Australasia). It was created in response to an initiative of, and seed funding by, the Victorian Government. The ultimate objective is for the Centre to assist in enhancing the reputation of Melbourne as a major centre of finance practice, research, and education.

The Melbourne Centre's particular niche in the market place and comparative advantage is in bridging the gap between the finance industry and academe. To achieve its goals, the Centre conducts a range of events (forums, conferences, workshops, seminars), funds a range of research projects, and gathers and disseminates information

Among the sixteen forums, workshops, seminars, conferences held by the Melbourne Centre in the second half of 2007 were the following:

- 2nd International Distinguished Lecture; Dec 12th., Dr Robert Joss (Dean Stanford Business School and former CEO, Westpac) "Modern Finance and its Challenges for Leadership" (Sponsored by KPMG).

- "Financial Regulation: Costs, Benefits and the Process of Regulatory Change". Sept 19th., A conference sponsored by ASIC, APRA and FICA
- 12th Finsia- MCFS Banking and Finance Conference; Sept 24-25th

More information about these and other past and planned activities, including copies of papers presented and research studies, can be found on the Centre's web site:  
[www.melbournecentre.com.au](http://www.melbournecentre.com.au).

We would be delighted to hear from alumni involved in the finance and business communities regarding issues you see as warranting high quality independent research, and also regarding topics where you would like to know more about recent insights from academic research. And we invite you to consider attending some of our events in 2008. Please feel free to contact me or one of the Centre's staff: David Michell, John Fowler, Patrick Zhang, and Graham Cocks.

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## ARE YOUR DETAILS UP-TO-DATE?

Please send change of address, phone  
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