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### FMAA CALLS GRADUATE MEMBERS

The Financial Management Association of Australia (FMAA) would like to extend an invitation to past Melbourne committee and sub-committee members to join the FMAA Alumni.

If you are a past committee or sub-committee member, could you please contact Vivien Chan at [vivien.chan@fmaa.com.au](mailto:vivien.chan@fmaa.com.au) or ring on 8344 4981. For more information, please visit our website at [www.fmaa.com.au/melbourne](http://www.fmaa.com.au/melbourne). We look forward to hearing from you.



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## EDITORIAL

Welcome to a new year and another edition of Taking Stock, the biannual newsletter for finance honours and postgraduate alumni.

In this edition: congratulations to Professor Rob Brown on receiving the Dean's Award for Excellence in Teaching; the successful Australia's Future Fund Symposium and NYU Down Under Derivatives Conference; acknowledgment of the high achievers from our 2006 graduating cohort; and welcome to our 2007 cohort of enthusiastic postgraduate students.

The Department of Finance encourages the development of valuable professional and personal networks by fostering our Department's alumni. Membership of the Department's alumni is automatic for students graduating with Honours in Finance as part of a Bachelor of Commerce or completing Postgraduate studies in finance. To ensure you continue to be a part of this growing professional network providing

access to current developments across the finance industry both locally and worldwide, please see that your contact details are kept up to date.

You can revise your contact details at any time by sending an email to [fin-alumni@unimelb.edu.au](mailto:fin-alumni@unimelb.edu.au)

We hope you find this issue a worthwhile and enjoyable read. Essentially, this publication is targeted to you as an alumnus and we encourage you to forward us a story of interest or your professional profile to feature in an issue. Any ideas or suggestions for future publications are welcomed, and can be sent to [finance-acadserv@unimelb.edu.au](mailto:finance-acadserv@unimelb.edu.au)

Kind regards,

Silvia Barberoglou and  
AnnMaree Murray  
Academic Liaison Officers ■



*Professor Bruce Grundy and  
Professor Robert Engle*

## NYU DOWN UNDER DERIVATIVES CONFERENCE

In March, the Melbourne Derivatives Research Group co-hosted with FIRN (an ARC research network) the New York University Down Under Derivatives Conference.

Capitalizing on a confluence of our visiting Professorial Fellows, the one-day conference included Professor Richard Stapleton (Manchester University), Professor Menachem Brenner (NYU-Stern), Professor Marti

Subrahmanyam (NYU-Stern), and Professor Anand Srinivasan (NUS, and an NYU alumnus). Keynote speaker at the event was Professor Robert Engle (NYU-Stern, Nobel laureate in Economics).

The topics included liquidity and execution risk; the Black model; liquidity and efficiency in FX derivatives; latent liquidity and corporate bond spreads; and executive stock option valuation. The conference was well attended, and we were particularly pleased with a substantial presence by our finance alumni and PhD students. ■

## DEPARTMENT UPDATE



Head of Department  
Professor Paul Kofman

While the previous newsletter foreshadowed significant challenges, the first few months of 2007 have in fact delivered impressive departmental highlights. First and foremost among those achievements is Professor Rob Brown being awarded the Dean's Award for Excellence in Teaching (Open Award) at the 2007 Faculty of Economics and Commerce Dean's Awards Ceremony. Rob has consistently delivered outstanding teaching in our core subject Business Finance, but much more than that, he has been a champion of finance education at The University of Melbourne, and indeed around Australia. A second major achievement is Associate Professor John Handley's forthcoming

Journal of Financial Economics research publication. Tier 1 journal publications like this remain elusive with a success rate under 5% and few non-US universities are featured among the published authors. It's great to have colleagues publishing with the very best in our discipline!

In late March, the Department's derivatives research group (MDRG) organised and hosted the NYU Down Under Derivatives Conference. Speakers included the 2003 Nobel laureate Professor Rob Engle (New York University), Professor Richard Stapleton (University of Manchester), Professors Menachem Brenner and Marti Subrahmanyam (both from New York University), and Professor Anand Srinivasan (NUS). It was particularly pleasing to see current Honours students, as well as finance alumni attending the conference and sending us favourable feedback. The conference reinforced our close ties with NYU, with Professors Brenner and Subrahmanyam spending almost a month as visiting Professorial Fellows in the Department. Their visits coincided with Professor Richard Stapleton's eighth annual visit as Professorial Fellow of the Department.

Earlier in February, the Department co-hosted the Future Fund – Getting Down to Business Symposium with

the Melbourne Centre for Financial Studies, the Melbourne Institute and the Department of Economics. An impressive line-up of speakers including Saul Eslake, Vince Fitzgerald, John Freebairn and Paul Costello argued the pros and cons of the Future Fund's involvement in Australia's funds management industry. The Symposium was attended by well over 100 industry professionals and academics with a keen interest in the industry's future.

Further Knowledge Transfer transpired with our colleagues hitting the airwaves. Dr Les Coleman was recently interviewed on the role of behavioural finance in the February global share market correction on ABC Radio National Saturday Extra. Later that same week, Professor Kevin Davis was quizzed about hedge funds snapping up Qantas shares on ABC's Lateline Business.

Meanwhile, student enrolments have hit all-time highs across our programs. Of course, such interest attests to the quality, relevance and career focus of our finance curriculum, but it also requires a watchful eye on the quality of the educational experience. To better cater for the ever-growing enrolments, we now also offer the PASS (Peer-Assisted-Student-Support) program to the first-year students enrolled in our subject Finance 1. ■

### Australia's Future Fund – Getting Down To Business

In February, the Department of Finance co-organised and co-hosted (with the MCFS and the MIAESR) a symposium following the recent launch of the Future Fund.

Speakers at the half-day symposium canvassed the market's views of the Fund's impact, the macroeconomic implications of the Fund, and the governance challenges facing the Fund's Board of Guardians. Speakers included Vince Fitzgerald (Allen Consulting), Saul Eslake (ANZ) and Paul Costello (The Future Fund).

An audience of about 100 included a broad representation of the Melbourne finance industry and Melbourne University academics. ■

### AWARDS

#### 2007 Faculty of Economics and Commerce Dean's Awards Ceremony



*Professor Rob Brown receiving his award from Acting Dean Professor Bruce Grundy*

Professor Rob Brown was awarded the Dean's Award for Excellence in Teaching (Open Award) at the 2007 Faculty of Economics and Commerce Dean's Awards Ceremony.

Over the past six years, Professor Rob Brown has made a sustained contribution of the highest quality to the teaching program in finance at this university and indeed beyond this university. His achievements include an outstanding classroom performance, significant and very valuable contributions to curriculum development and review within the Department of Finance and the publication of internationally recognised teaching materials.

These achievements are even more deserving in light of the very high and ever-rising student numbers enrolled in Professor Brown's subjects. ■

## RESEARCH PROGRAMS UPDATE



*Greg Schwann  
PhD Coordinator*

The 2007 academic year has begun with a bang, with six new PhD students and seven new MCom students in our research degree programmes. Everyone is working hard and we look for good academic results in the coming year.

Looking forward, the department has four PhD candidates on the verge of completing.

The candidate's names and topics are listed below.

### **Astro Choo**

Closing period effects and day trading

### **Tariq Haque**

Style Investing: Non-homogeneity of stocks within a style

### **Ian MacLachlan**

An empirical study of corporate bond pricing with unobserved capital structure dynamics

### **John Zhang**

Corporate governance, information uncertainty and firm performance

The list of topics demonstrates the breadth of interest of our PhD students and their supervisors. The topics range from Astro Choo's study of market microstructure of day trading (Supervisors: Kim Sawyer and Greg Schwann); to funds management in Tariq Haque's study of style investing (Supervisors: Paul Kofman and Kim Sawyer); to asset pricing in Ian MacLachlan's study of corporate bonds (Supervisors: Christine Brown and Kevin Davis); and to the study of how corporate governance affects firm performance by John Zhang (Supervisors: Rob Brown, Simba Chang and Greg Schwann). The University of Melbourne Finance PhDs have a track record of solid academic research that earns accolades from the examiners. I expect the students finishing in 2007 to maintain this standard and add further lustre to an already esteemed program. ■

## PROFESSIONAL PROGRAMS UPDATE



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



At the start of 2007, we continue to see strong demand for our three professional programs: the Postgraduate Diploma in Finance, the Master of Financial Management and the Master of Applied Finance. This demand is clear evidence of the high

reputation that these programs hold both domestically and internationally. This year represents the fourteenth year that the Master of Applied Finance has been offered at the University of Melbourne and the eighteenth year for the Postgraduate Diploma. It is pleasing that the Master of Financial Management, in only its sixth year of offering, has enjoyed its highest enrollments since its inception. Indeed, the feedback we have received from both graduates of the program and employers in the finance sector indicate that the specialized nature of degree is highly valued by the marketplace.

As you are no doubt aware, 2008 sees the introduction of the Melbourne Model at the University – a key feature of which is the establishment of graduate schools in all faculties of the university. The Faculty of Economic and Commerce has, of course, effectively operated a successful graduate school for many years of which the Department of Finance has played an integral role. Notwithstanding, the Melbourne Model now presents the Department with a number of opportunities and challenges. Accordingly, we are currently investigating a number of strategic initiatives in relation to our professional programs which will enhance the experience of our existing and prospective students as well as increase the brand recognition of our programs – so stay tuned! ■

## HONOURS UPDATE



*Ian O'Connor*

The 2007 group of Finance Honours students had their initiation into the program at the Honours Retreat, held for the second year running at the Treetops function centre, Museum of Victoria. The research based day session was followed by the traditional evening dinner in the Australiana Gallery. A highlight of the dinner session was the presentation of the Finance Medal to the top student of 2006. Two students excelled in the year, and medals were awarded to Josh Blakey, and Matt Sibbison. Josh and Matt, who both work in Sydney, managed to catch the intercity flyer in time for a good evening. The Honours Retreat was sponsored by Goldman Sachs JBWere. Special thanks to Cristian Duclos.

Upcoming events include the annual Honours Alumni dinner planned for a Friday evening in early August 2007. ■

## ALUMNI NEWS

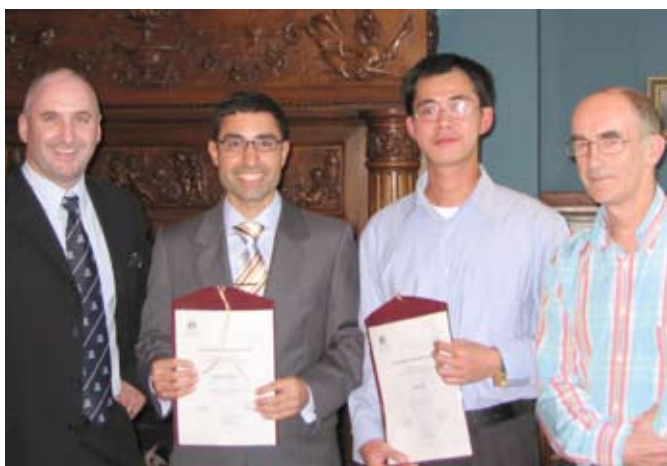
Sarah Li and David Chan's millennium romance was sparked when they were both students in the Masters of Applied Finance program in 2000. The romance was conducted from a distance when David remained in Sydney and Sarah left to work for HSBC specialising in international trade in China. Sarah is now working for HSBC on Cash management area in Hong Kong and David is a Vice President at JPMorgan Chase Bank in Hong Kong where he manages regional market risk for the bank.

They were married in July 2005 and are now living happily in Hong Kong, but have plans to one day get back to Australia to live. Some may remember David - he speaks (both English and Chinese) at a rather rapid pace! ■



## DEPARTMENT OF FINANCE WELCOME FUNCTION

The Department of Finance recently welcomed commencing postgraduate students at a function at University House. The event was an opportunity to recognise outstanding achievement and for staff and new students to meet informally before embarking on their studies.



MAF certificate recipients Erinc Ilkehan & Zheng Xu with Dr Sean Pinder & Professor Richard Stapleton

Visiting Professorial Fellow Richard Stapleton presented awards to our top 2006 students in Honours, Master of Financial Management and Master of Applied Finance. The function was attended by Departmental and Faculty staff as well as present and past research and coursework postgraduate students. ■

### 2006 Department of Finance Excellence Awards

#### **Honours Medal**

Matthew Barry Sibbison and  
Joshua Matthew Scallan Blakey

#### **Master of Financial Management Medal**

Ariana Lionardi

#### **Master of Applied Finance Medal**

Huaying Liu

## Research in progress

### A RE-EXAMINATION OF THE HISTORICAL EQUITY RISK PREMIUM IN AUSTRALIA

Accounting and Finance,  
forthcoming, 2007

Tim Brailsford (University of Queensland),  
John C. Handley and Krishnan  
Maheswaran

The value of the equity premium is one of the most fundamental yet debated matters in modern finance, in part because of its widespread use in a variety of applications including its critical role in valuations. The nature of these applications requires an unobservable ex-ante estimate of the equity risk premium. A common approach to overcome this problem is to use ex-post estimates obtained from historical data (although a number of alternative approaches do exist). The issue has received a deal of recent attention partly due to the growing need

for an estimate of the equity risk premium in regulatory pricing decisions.

In light of this ongoing debate over the value of the equity risk premium, its increasing use in the regulatory setting, and the impact of dividend imputation on the premium, this paper presents a timely new look at the historical equity risk premium in Australia, and provides an improved understanding of the historical record.

Given that historical estimates have traditionally been, and continue to be used, the aim of the paper is to take a fresh look at the historical equity risk premium and the data that underlie its estimate in Australia. We are concerned that if a historical estimate is to be used, then that historical estimate should be the best available.

We document concerns about data quality which become increasingly important the further back in time one looks. In particular, there are sufficient question marks over the quality of data

prior to 1958 to warrant any estimates based thereon to be treated with caution. Accordingly, we present a new set of estimates of the historical equity risk premium corresponding to periods of increasing data quality but of decreasing sample size

Relative to bonds (bills), the equity premium has averaged 6.3% (6.8%) pa over 1958-2005, which is a period of relatively good data quality. Together with other results in the paper, the findings reveal a historical estimate that is substantially less than widely cited historical studies would otherwise indicate. We reconcile prior evidence through documenting a dividend adjustment that has typically been overlooked. We also provide estimates that incorporate an adjustment for imputation credits.

Requests for a copy of the paper can be forwarded to:  
handleyj@unimelb.edu.au ■