

Department of Finance

Faculty of Economics and Commerce

Editorial

Hello and welcome to another edition of Taking Stock, the newsletter for finance honours and postgraduate alumni. We are pleased to bring you this second issue for 2005. This issue contains the latest news from the Department of Finance, staff profiles, key finance developments and an alumni update. 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 will be welcomed, and can be sent to fin-postgrad@unimelb.edu.au.

The Department of Finance encourages the development of valuable professional and personal networks by fostering our Department's alumni. Membership of this growing professional network provides access to current developments across the finance industry both locally and worldwide as well as fostering valuable professional and personal networks. We encourage you to take the time to peruse the new look Faculty of Economics and Commerce Alumni website:

<http://www.ecom.unimelb.edu.au/faculty/business/alumni.html>

Kind regards,

Silvia Barberoglou and AnnMaree Murray,

Academic Liaison Officers

Department Update



In the last Department Update, I mentioned that we were one of a consortium of universities that would establish the Melbourne Centre for Financial Studies, with financial help to the tune of \$1 million from the Government of Victoria. I'm delighted to say that the Centre has now begun operations, with Professor Kevin Davis as its director. The Centre has already been involved in several research-focussed events and there are a lot more in the pipeline. You can check on progress at www.melbournecentre.com.au.

The last Department Update also mentioned that the Department's teaching programs were to be reviewed by Professor Stephen Brown (New York University). Stephen's overall finding was that our teaching program was outstanding and equal with the best internationally. His recommendations for change will be considered at the next Department meeting. From there, the adopted recommendations go into the Department's operational plan for 2006 and thence into operation in the coming year.

Publishing research in good journals is one of the main objectives of an academic. In finance the journals don't come any better than the Journal of Finance, which is published by the American Finance Association. Dr Xin (Simba) Chang, one of our lecturers, recently had a paper accepted in that journal. This is a wonderful achievement.

Two new members of the academic staff have joined us in recent months. Dr Harry Scheule has joined us as a senior lecturer. Originally from Germany, Harry spent most of the past year working in the finance industry in Boston. His particular research interests are in credit risk and banking. Harry has already had a publication accepted in the Journal of Fixed Income, which is one of the top journals in his field. Dr Howard Chan joined us as an associate professor. A Melbourne Commerce honours graduate, Howard subsequently studied at Monash University and joined the academic staff there. Howard has published widely in finance, most recently on the topic of how analysts' forecasts may affect stock prices.

At the end of this year, I will be stepping down as head of department after more than 4 years in that role. Paul Kofman, the current deputy head, will take over. I'm sure that the transition will be very smooth and the Department will continue its success under Paul's leadership.

Best wishes for the rest of this year and for 2006.

CONTENTS

- Department and Program Updates
- New and Visiting Department Staff
- Finance PhD completions
- Finance Welcome Function
- Alumni

Honours Update



Ian O'Connor

Chia Mei Shih, a current honours student in 2005, was awarded a scholarship to attend the National Honours Colloquium at the University of New South Wales in August 2005. She was amongst a group of about 40 students from Australia and New Zealand to be awarded scholarships. The scholarship provided funds for travel and accommodation. Chia Mei's presentation was titled "Market timing and capital structure: evidence from Japan". She is supervised by Dr Simba Chang. Congratulations to Chia Mei.

Research Programs Update



Greg Schwann

Greg Schwann

Earlier this year, the department completed a review of the MCom (Finance) and PhD programs. The review had input from both the academic staff and from existing and past MCom and PhD students. A number of changes were recommended for both programs. Let me focus on the largest changes.

The major change to the MCom (Finance) is in the admission requirements. We are broadening the admission base to the MCom to include all four-year undergraduate degrees with a concentration in finance. This drops the requirement for an honours degree with research. This change will not adversely affect the quality of our MCom students because we are also increasing the entering average from 70% to 75% and tightening the definition of what is a concentration in finance. Our objective is to attract the best masters students from around the world to our MCom program and we believe that our new criteria will assist that.

The review indicated that the PhD program was in good shape. However, the review noted that we have a problem in attracting students because we lacked a clear funding package. The department is meeting this challenge head-on by adopting the Melbourne Finance Guarantee. Students studying full-time toward a PhD in Finance at the University of Melbourne are guaranteed a minimum living stipend of A\$18,277 (2005). The guarantee also includes tuition fee remission for international students. The guarantee is for the normal three-year period of the PhD degree but may be extended for an additional year. The Melbourne Finance Guarantee makes our PhD program competitive with major international finance PhD programs.

We believe that we already have the best research degree programs in finance in Australia. The changes in the MCom (Finance) and PhD programs put us on course to compete with the best finance research degree programs in the world.

If you would like to know more about the changes to our research programs, stay tuned for our new research degree website. The site will be going live soon. Go to our homepage www.finance.unimelb.edu.au and follow the links.

Professional Programs Update

Developments in the MAF and MFM



Paul Kofman



Sean Pinder

Facing increasing competition, and an unfavourable exchange rate, we have seen our 2005 MAF intake contract slightly for the first time since it was established 12 years ago. This is not unique to our program as indeed enrolment numbers

have dropped across the country. We are certainly not taking this development for granted, and therefore developed a number of initiatives to attract the best and brightest from within and from outside Australia. A recent advertising blitz – including tram signs, and AFR ads – focuses very much on our local market. At the same time, the department's profile continues to be enhanced with the recent establishment of the Melbourne Centre for Financial Studies and the appointment of Professor Kevin Davis as its Director. Many of you may remember Kevin as being actively involved in the Master of Applied Finance program. The Centre has been funded in part with a \$1 million grant by the Victorian government and its role is to conduct leading edge finance and investment research with the aim of bridging the gap between universities and industry.

Internationally, a forthcoming recruiting/reconnaissance mission to China (Beijing) by Sean Pinder will investigate Chinese market expectations and the latest developments in executive and professional requirements and education. We also participate in recruiting and PR missions to India, Malaysia, Thailand, and a number of countries in Latin America. There are already promising signs that these missions bear fruit, with increasing numbers of applications from India and Thailand, in particular. What we can assure all of our alumni is that admission requirements will continue to be set at the very highest of levels. We take great pride in emphasising in all of our promotional literature and marketing efforts that it is the quality of both the student cohort and instructors that sets a University of Melbourne postgraduate degree apart from its competitors, and we have no interest in compromising either.

During a recent visit to London, Paul Kofman met with a number of MAF alumni. Although the European MAF cohort is small, it is steadily growing and they are keen to maintain contact with their Australian and other overseas colleagues. On this and similar occasions we continue to hear that the skills learnt in the MAF (and MFM) program do pay off in their professional careers.

Ultimately, of course, we very much depend on the good PR that our alumni continue to provide among their colleagues and many business connections. We sincerely hope and trust that you will keep supporting your programs.

As you are probably well aware, a large part of the student recruitment, enrolment and subsequent program experience depends on an efficient and up-to-date administration. From the correspondence with prospective students, through the availability and scheduling of external practitioners to the hosting of exams and the organisation of an increasing number of social events, our professional program administrators, Silvia Barberoglou and AnnMaree Murray, keep providing us and our students with the best support we could wish for.

New Staff

We warmly welcome the following staff who recently joined the Department of Finance.

Howard Chan BCom *Melb* MEc PhD *Monash* CPA

Research Interests: Option pricing models; asset pricing models and microstructure issues related to liquidity.

Harald Scheule Dipl-Kfm, Dr rer pol *Regensburg*

Research Interests: Financial risk measurement and management.

We warmly welcome to the Department of Finance Professor Bruce Grundy.



Professor Bruce Grundy has extensive experience across all aspects of financial management and planning, and has worked within both academic and consulting environments.

Bruce Grundy
BCom *Qld* PhD *Chic*

Bruce has taught corporate finance, finance governance, real options, and futures and options subjects in Australia and internationally, at institutions including The Wharton School, Stanford University, the University of Chicago, and the University of Melbourne.

His research interests are varied, and include derivative securities pricing; executive compensation; the structure of the mutual fund industry; momentum trading strategies; valuation of mining companies; corporate governance and the cost of capital in global capital markets. Bruce is the Managing Editor of the *International Review of Finance* (the journal of the Asian Finance Association) and a past or current Associate Editor of the *Journal of Finance*, *Review of Financial Studies* and *Journal of Finance and Quantitative Analysis*, and has been widely published within his field.

Bruce undertakes consulting assignments for numerous government and corporate sector clients, and has worked on behalf of Arthur Anderson, National Economic Research Associates (New York and Sydney), AAPT, Alcoa and the Victorian Department of Treasury and Finance.

Research in Focus

Analyst Coverage and Financing Decisions
(Forthcoming in the *Journal of Finance*)

Xin Chang, Sudipto Dasgupta and Gilles Hilary



Recent research on the financing behavior of firms has resulted in a series of empirical challenges for the Pecking Order Hypothesis (POH) – historically one of the most influential theories of firms' security issuance decisions.

Although information asymmetry is an integral part of the POH, the apparent failure of the latter to explain firms' financial choices does not imply that information asymmetry is irrelevant for financing decisions. Recent survey evidence reveals that one of the most important considerations for equity issuance by managers is the extent to which they view share prices of their companies to be overvalued or undervalued at a given point of time. This suggests that managers take advantage of a "window of opportunity" to time their equity issues.

Since information asymmetry is an integral element of market timing behavior, we hypothesize that firms that are more susceptible to information asymmetry would also be the ones that are more inclined to time the market. This leads to the main hypothesis examined in our paper: equity issuances of firms that are subject to more information asymmetry will be more influenced by market conditions.

Our paper empirically investigates how information asymmetry affects firms' financing choices. We find that the number of analysts following a firm is negatively correlated with the extent of information asymmetry the firm faces. Firms that are covered by more analysts are more likely to issue equity as opposed to debt. Moreover, firms that have greater analyst coverage depend less on favorable market conditions for their equity issuance decisions. Specifically, we find that the tendency for firms to make bigger issues of equity when their stock returns are more favorable is less pronounced for firms followed by more analysts. In addition, more analyst coverage decreases the likelihood of a debt issue or a large equity issue. Finally, the debt ratios of firms followed by more analysts are less affected by the measure of market timing. All these results hold when we partition the sample of firms into size groups, and are especially strong, both economically and statistically, for the smallest size group. The fact that these results hold and, if anything, are the strongest for the smallest firms, further supports the view that information asymmetry affects firms financing choices.

Recent PhD Completions



Krishnan Maheswaran (conferred August 2005)

Some international evidence on the impact of liquidity constraints on consumption smoothing, June 2005

Krishnan studied the effect of liquidity constraints and limited stock market participation on the consumption smoothing behaviour of U.S. and U.K. households. His study provides evidence on how households respond to changes in pension policy and share risks through their stock market investments.

Wai Man Raymond Liu (conferred August 2005)

Monitoring and limit order submission risks

Raymond developed a game theoretic stock trading model that analyses the trade-off between monitoring and the risks of limit order submission. Departing from traditional models of limit order submission that assume traders do not monitor for public news arrival, his thesis provides an insight on the importance of the monitoring decision in stock trading.

Postgraduate Welcome Function

The Department of Finance recently held a Welcome Function for commencing postgraduate students. The function was attended by Departmental staff as well as present and past students. The event was an opportunity for staff and new students to meet informally before embarking on their studies.



Where are they now?



Mateo Betancur
Master of Applied Finance 2004

My name is Mateo Betancur from Colombia. After being in the work force for 4 years, I felt it was time to develop my financial skills and enrol in a highly regarded Finance professional program. In 2003 I commenced the Master of Applied Finance (MAF) degree at the University of Melbourne. The MAF is a thoroughly balanced program. It gave me a complete vision of different financial topics and it allowed me to emphasize the specific courses in which I was interested.

My experience at the University of Melbourne was exceptional. The knowledge I received from both the subjects and the highly professional teaching staff has given me the theoretical and practical tools that I use today in my current financial role.

The MAF degree at the University of Melbourne is an excellent professional program and I highly recommend it to any one looking for a truly rewarding challenge.



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 or ring on 8344 4981. For more information, please visit our website at www.fmaa.com.au/melbourne.

We look forward to hearing from you.

Contact:

Department of Finance
2nd Floor
Economics and Commerce Building
The University of Melbourne
Victoria, Australia, 3010
Telephone: +61 3 8344 6912
Fax: +61 3 8344 6914
Email: fin-postgrad@unimelb.edu.au
Website: <http://finance.ecom.unimelb.edu.au>