Unit Outline*

FINA7401
Microstructure of Financial Markets

Semester 2, 2011
Crawley Campus

Unit Coordinator: Associate Professor Marvin Wee

Business School
www.business.uwa.edu.au

* This Unit Outline should be read in conjunction with the Business School Unit Outline Supplement available on the Current Students web site http://www.business.uwa.edu.au/students
UNIT DESCRIPTION

Introduction
Welcome to FINA7401 Microstructure of Financial Markets.

Unit content
This unit builds on the understanding of the trading of financial securities and the design of financial markets established in FINA3307 Trading in Securities Markets. Both theoretical and empirical research in the area of financial market microstructure will be examined. Topics include market design, price impact of trading, regularities and commonalities, bid ask spread and their sources, and regulation of the markets.

The goal of the unit
The main aim of the course is to provide an overview of the market microstructure area. In many of the finance courses, we assume that securities can be issued or acquired without any real effort or expense. However, the reality is that trading securities has more costs than just merely brokerage commissions. The study of security trading and the markets that they are traded on belongs to the field of study known as “market microstructure”. This area of research has grown rapidly into one of the largest sub-disciplines of finance. The earliest work dates from mid-1970s with a concentration of research beginning only in the mid-1980s. Historically, work ranges from studies on the viability of markets to how alternative market structures develop and process information differently. The current research has broadened the questions asked. We will examine prior research that has questioned the economic impact of market microstructure such as: (1) how does microstructure interact with asset pricing? (2) do market frictions translate into costs that are important in financial decisions, including order placement and portfolio choice?

Learning outcomes
On completion of this unit, you should be able to:
- Discuss how prices are form and how different market structures impact on the price formation process and other aspects of the market.
- Discuss how different market participants trade and how their trading affects aspects of the financial market.

Educational principles and graduate attributes
In this unit, you will be encouraged and facilitated to develop the ability and desire to:
- Explore concepts and issues in the market microstructure area.
- Critically evaluate the current developments in the financial markets.
- Think and reason logically and creatively through participation in discussions in the seminars.
- Demonstrate self-management and independent learning skills through the completion of the mini-project.

TEACHING AND LEARNING RESPONSIBILITIES

Teaching and learning strategies
The first half of the course will involve weekly seminars where the key topics in the area of market microstructure will be discussed. The seminars are discussion-based and it is essential that you read the papers prior to the seminar to obtain the best out of the classes. You will be required to participate in the discussion of the papers.
The second half of the course will be conducted through independent study where you will select a topic area and research it for the mini-project. The mini-project gives an insight into the design and execution of the research process. You will be provided with basic training in the SAS software and you will be required to bring yourself up to speed with the other commands/tools to carry out the project.

You will be provided with help whenever possible. However, you need to take the initiative to research on issues that you are unsure of. I am here as the unit co-ordinator to facilitate your learning, but it is your responsibility to participate and benefit from the unit.

Teaching and learning evaluation

You may be asked to complete two evaluations during this unit. The Student Perception of Teaching (SPOT) and the Students’ Unit Reflective Feedback (SURF). The SPOT is optional and is an evaluation of the lecturer and the unit. The SURF is completed online and is a university wide survey and deals only with the unit. You will receive an email from the SURF office inviting you to complete the SURF when it is activated. We encourage you to complete the forms as your feedback is extremely important and can be used to make changes to the unit or lecturing style when appropriate. FINA7401 is periodically evaluated and feedback from students is taken into account when the unit is updated annually.

Attendance

Participation in class, whether it be listening to a lecture or getting involved in other activities, is an important part of the learning process, therefore it is important that you attend classes. More formally, the University regulations state that ‘to complete a course or unit students shall attend prescribed classes, lectures, seminars and tutorials’.

CONTACT DETAILS

We strongly advise students to regularly access their student email accounts. Important information regarding the unit is often communicated by email and will not be automatically forwarded to private email addresses.

<table>
<thead>
<tr>
<th>Unit coordinator/lecturer</th>
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<tbody>
<tr>
<td><strong>Name:</strong></td>
<td>Dr Marvin Wee</td>
</tr>
<tr>
<td><strong>Email:</strong></td>
<td><a href="mailto:Marvin.We@uwa.edu.au">Marvin.We@uwa.edu.au</a></td>
</tr>
<tr>
<td><strong>Phone:</strong></td>
<td>(08) 6488 5860</td>
</tr>
<tr>
<td><strong>Consultation hours:</strong></td>
<td>Monday 1 – 3pm</td>
</tr>
<tr>
<td><strong>Lecture times:</strong></td>
<td>Tuesday 2 – 5pm</td>
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<tr>
<td><strong>Lecture venue:</strong></td>
<td>Case Study Room 142</td>
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TEXTBOOK(S) AND RESOURCES

Unit website
http://www.webct.uwa.edu.au

Recommended/required text(s)
There is no required text. However, the following lists a number of texts on market microstructure that you may find useful. The books listed in italics may not be available from the library.


There are also a number of books on SAS that you may find useful. The books listed in italics may not be available from the library.

## UNIT SCHEDULE

<table>
<thead>
<tr>
<th>Week/Date</th>
<th>Topic</th>
<th>Readings</th>
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### ASSESSMENT MECHANISM

#### The purpose of assessment

There are a number of reasons for having assessable tasks as part of an academic program. The assessable tasks are designed to encourage you to explore and understand the subject more fully. The fact that we grade your work provides you an indication of how much you have achieved. Providing feedback on your work also serves as part of the learning process.

#### Assessment mechanism summary

<table>
<thead>
<tr>
<th>Item</th>
<th>Weight</th>
<th>Due date</th>
<th>Remarks</th>
</tr>
</thead>
<tbody>
<tr>
<td>Seminar Participation</td>
<td>10%</td>
<td>During Semester</td>
<td></td>
</tr>
<tr>
<td>Mini Project</td>
<td>40%</td>
<td>1 Nov 2011 4pm</td>
<td>Please email your submission including the Word document and Endnote library to <a href="mailto:Marvin.Wee@uwa.edu.au">Marvin.Wee@uwa.edu.au</a></td>
</tr>
<tr>
<td>Examination</td>
<td>50%</td>
<td>13 Sep 2011 2pm</td>
<td>Case Study Room 142</td>
</tr>
</tbody>
</table>

**Note 1:** Results may be subject to scaling and standardisation under faculty policy and are not necessarily the sum of the component parts.

**Note 2:** Your assessed work may also be used for quality assurance purposes, such as to assess the level of achievement of learning outcomes as required for accreditation and audit purposes. The findings may be used to inform changes aimed at improving the quality of Business School programs. All material used for such processes will be treated as confidential, and the outcome will not affect your grade for the unit.
Assessment components

Seminar Participation
- **Objectives**: To question accepted wisdom and be open to new ideas and possibilities.
- **Details**: Seminar participation is immensely important to you benefiting from the course. To encourage involvement during the seminars, you will be required to “discuss” a research paper. This would involve explaining or highlighting the key results in the tables.
- **Format**: You will NOT be required to prepare any slides – you will be able to rely on the slides prepared by the unit co-ordinator.
- **Marking Criteria**: The participation is worth 10% of your final mark.

Mini-Project
- **Objectives**: To familiarise yourself with the development and execution of the research process.
- **Details**: You are expected to complete a mini-research project using the data that is available via Securities Industry Research Centre of Asia Pacific (SIRCA). You may select a topic from the list below. The research question should be original or an extension of past studies. Please discuss your research topic and question with me preferably before the end of the study break. Due to the limitation of time, you are only required to conduct a pilot study. There is a stronger emphasis on the development of the project. That is the research question, hypothesis and the proposed statistical tests. You are required to present your preliminary results during Week 12 of the semester in a half hour presentation. The presentation will provide an opportunity to discuss your project and gain feedback that may be incorporated into your final report.
- **Format**: In the paper, you will need to discuss (1) the research question/s addressed, (2) prior literature, (3) the hypothesis or hypotheses tested, (4) the statistical tests, and (4) the pilot results. The paper is to be word processed with 1.5 line spacing, 12 pt Times New Roman font, 1.5 cm margin and not to exceed 20 pages (including tables and references).
- **Marking Criteria**: The mini-project is worth 40% of your final mark. Marks will be awarded for clear discussion of the research questions, prior literature, research design and results. Marks will be deducted if the formatting requirement is not adhered to. Please email your submission including the Word document and Endnote library to Marvin.Wee@uwa.edu.au. Late submissions will not be accepted.

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### Regularities & Commonalities

### Insider Trading

### Market Microstructure and Asset Pricing

### Examination
- **Objectives** - The examination is structured to assess if you have achieved the learning outcomes of the unit.
- **Details** – The exam will cover **ALL** lecture materials and will be held at a time scheduled in the exam period. The exam will be three hours plus 10 minutes reading time and will comprise essay type questions. This is a CLOSED BOOK examination.

### Student Guild
Phone: (+61 8) 6488 2295  
Facsimile: (+61 8) 6488 1041  
E-mail: inquiries@guild.uwa.edu.au  
Website: [http://www.guild.uwa.edu.au](http://www.guild.uwa.edu.au)

### Charter of Student Rights and Responsibilities
The Charter of Student Rights and Responsibilities outlines the fundamental rights and responsibilities of students who undertake their education at UWA. (refer [http://handbooks.uwa.edu.au/undergraduate/poliproc/policies/StudentRights](http://handbooks.uwa.edu.au/undergraduate/poliproc/policies/StudentRights)).

### Appeals against academic assessment
The University provides the opportunity for students to lodge an appeal against assessment results and/or progress status (refer [http://www.secretariat.uwa.edu.au/home/policies/appeals](http://www.secretariat.uwa.edu.au/home/policies/appeals)).