Unit Outline*

FINA3307

Trading in Securities Markets

Semester 2, 2011
Crawley Campus

Unit Coordinators:
Associate Professor Marvin Wee
Professor Sirimon Treepongkaruna

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
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UNIT DESCRIPTION

Introduction
Welcome to FINA3307 Trading in Securities Markets. FINA3307 is one of the units offered within the Finance (Investments) stream in the Accounting and Finance program.

Unit content
Students will be introduced to the theory and practice of securities trading at exchanges and in dealer type markets. In contrast to traditional models of finance, the unit does not assume perfect markets but examines how trading and the design of markets affect price efficiency. You will learn how prices reflect information about fundamental value, who makes markets liquid and why some traders consistently profit from trading while other traders lose. You will also learn how to trade in a dealer type market via a simulated trading game.

The Goal of the unit
The main aim of the course is to provide an insight into how securities markets work and how they are regulated. Students will experience how trading occurs in a foreign exchange market through their participation in a simulated trading game. The unit will benefit students who are interested in working in the finance industry and will be of particular interest to those planning careers in portfolio management, equities and foreign exchange trading and financial market regulation.

Learning outcomes
On completion of this unit, you should be able to:
1. Describe the structure of different markets and how securities are traded.
2. Discuss the motivations for trading.
3. Identify trading costs and seek ways to measure and minimise them under different market structures.
4. Evaluate the links between market structure, trading efficiency and asset pricing.
5. Apply the dealing practices and conventions in the foreign exchange market.
6. Understand the interactions between the dealer and back office of a financial institution.
7. Demonstrate the ability to deal and complete transactions in a dealer type market.
8. Develop dealing strategies for the trading of assets such as foreign currencies.
9. Apply critical thinking and problem solving to individual and/or group activities in the dealer type market.

Educational Principles and Graduate Attributes
In this unit, you will be encouraged and facilitated to develop the ability and desire to:
• Acquire the skills required to learn, and to continue through lifelong learning, from a variety of sources and experiences;
• Adapt acquired knowledge to new situations through the studying of the assigned readings and applying the concepts to scenarios presented in the tutorials and lectures;
• Think and reason logically and creatively through participation in discussions in the tutorials.
TEACHING AND LEARNING RESPONSIBILITIES

Teaching and learning strategies

In weeks 1 to 7, the delivery of the unit involves a series of two-hour lectures and tutorials. During the lectures, a broad overview of the topic will be provided and important issues will be highlighted. You are expected to read the assigned chapters and readings to bring yourself up to speed on the issues. Subsequently, you will be given the opportunity to discuss these issues in the tutorial. During weeks 8 and 9, you will be required to attend the two-hour lectures where you will be introduced to the simulated trading game. Please note that no tutorials will be conducted during these two weeks. During weeks 10 to 13, each student will be required to attend their allocated lab trading session where you will be given the opportunity to experience trading in a simulated environment. Each trading session will be conducted in the computer lab and lasts for 3 hours.

Teaching and learning evaluation

You may be asked to complete two forms of 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 SPOT survey will be conducted twice during the semester. 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.

FINA3307 is periodically evaluated and feedback from students is taken into account when the unit is updated annually. The following are examples of changes implemented as a result of feedback from students in prior years:

- The number of readings for the unit has been reduced due to concerns with the workload of the unit.
- The book of readings is made available for purchase through the Co-op bookstore this year as suggested by students taking the course in previous years.

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. It is therefore 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’.

For Weeks 10-13, attendance at the trading sessions is compulsory. During the trading sessions, students will be operating their bank as a team of two. Each bank (and the market) will only operate successfully if all team members attend and participate. Non-attendance also means that students will not be able to demonstrate their individual or team skills. Accordingly, it is a requirement that students attend all trading sessions. Students who do not participate in any trading sessions will lose up to 40% of their total assessment for the unit. If you have any doubts about your ability to meet the participation, teamwork and time commitment required, it is recommended that you withdraw from this unit in the first week of the semester.
CONTACT DETAILS

We strongly advise you to regularly access your 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>Weeks 1-7</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Name:</strong> Associate Professor Marvin Wee</td>
<td></td>
</tr>
<tr>
<td><strong>Email:</strong> <a href="mailto:marvin.wee@uwa.edu.au">marvin.wee@uwa.edu.au</a></td>
<td></td>
</tr>
<tr>
<td><strong>Phone:</strong> (08) 6488 5860</td>
<td></td>
</tr>
<tr>
<td><strong>Consultation hours:</strong> Monday 1-3pm</td>
<td></td>
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<tr>
<td><strong>Lecture times:</strong> Monday 4-6pm (weeks 1-7)</td>
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<tr>
<td><strong>Lecture venue:</strong> Social Sciences Lecture Theatre</td>
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<td><strong>Weeks 8-13</strong></td>
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<tr>
<td><strong>Name:</strong> Professor Sirimon Treepongkaruna</td>
<td></td>
</tr>
<tr>
<td><strong>Email:</strong> <a href="mailto:sirimon.treepongkaruna@uwa.edu.au">sirimon.treepongkaruna@uwa.edu.au</a></td>
<td></td>
</tr>
<tr>
<td><strong>Phone:</strong> (08) 6488 7853</td>
<td></td>
</tr>
<tr>
<td><strong>Consultation hours:</strong> To be confirmed</td>
<td></td>
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<tr>
<td><strong>Lecture times:</strong> Monday 4-6pm (weeks 8 and 9)</td>
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<tr>
<td><strong>Lecture venue:</strong> Social Sciences Lecture Theatre</td>
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TEXTBOOK(S) & RESOURCES

Unit Website

Resources for this unit (unit outline, PowerPoint slides, etc) will be placed on WebCT which can be accessed through the following website [http://webct.uwa.edu.au/](http://webct.uwa.edu.au/)

Recommended/required text

Readings

In addition to the textbook, you will be required to read a number of articles for each tutorial and the lab sessions. These articles deal with aspects that are not dealt in depth in the textbook. As they will be discussed in class and examined directly in the quiz/examination, you are expected to read these articles. The articles are accessible via the unit WebCT. The book of readings will also be available, for a cost-recovery price, through the Co-op bookshop. The course reader comprises the following articles and reports.

Week 1
• ASX 2008. Getting started in shares.

Week 2

Week 3

Week 4

Week 5

Week 6

Weeks 8-13
Additional resources & reading material

- **Recommended Readings.**
  - This course requires you to explore concepts and issues that you have not been exposed to in previous finance courses at UWA. As such, the nature of the course is very much "explore and read". You are encouraged to read widely, both on the Internet and the printed media. The Australian Financial Review, and Shares magazine are both good sources of news on the local market and topical issues.
  - Web sites such as the www.asx.com.au, www.tradingroom.com.au are also good sources. Factiva, available through the library web site, provides current articles from leading financial newspapers such as the Wall Street Journal on international markets such as the NYSE and Nasdaq.

- **Other useful references, some of which are in the library, include:**
  - Faerber, E. 2008. All about stocks – the easy way to get started. McGraw-hill, USA.
# UNIT SCHEDULE

<table>
<thead>
<tr>
<th>Week/Date</th>
<th>Topic</th>
<th>Readings</th>
</tr>
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<tbody>
<tr>
<td><strong>BACKGROUND AND INSTITUTIONS</strong></td>
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<tr>
<td></td>
<td>Order Driven Mechanisms</td>
<td>Chap 6 (H)</td>
</tr>
<tr>
<td><strong>WHY DO PEOPLE TRADE?</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4 22 August</td>
<td>Motivation for Trading Informed trading and market efficiency Block Trading</td>
<td>Chap 8, 10 &amp; 11 (H)</td>
</tr>
<tr>
<td>7 12 September</td>
<td>Revision Lecture</td>
<td></td>
</tr>
<tr>
<td><strong>SIMULATED TRADING GAME</strong></td>
<td></td>
<td></td>
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<tr>
<td>8 19 September</td>
<td>Introduction to Simulated Trading Game, Background and Basic</td>
<td>Treepongkaruna (2011) Chap 1 &amp; 2</td>
</tr>
<tr>
<td>23 September</td>
<td>Mid-semester Exam</td>
<td></td>
</tr>
<tr>
<td>26 September</td>
<td>Study Break</td>
<td></td>
</tr>
<tr>
<td>9 3 October</td>
<td>Background and Basic (continued), UWA Trading Software</td>
<td>Treepongkaruna (2011) Chap 2 &amp; 3</td>
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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>Tutorial Participation</td>
<td>5%</td>
<td>During Weeks 2 to 7</td>
<td></td>
</tr>
<tr>
<td>Trading Reports</td>
<td>5%</td>
<td>Weeks 5 &amp; 7</td>
<td>Reports are to be submitted at the start of your allocated tutorial</td>
</tr>
<tr>
<td>Mid-semester Examination</td>
<td>50%</td>
<td>23 Sep 2011 6pm</td>
<td></td>
</tr>
<tr>
<td>1st Assessable Trading Session (Trading in one currency pair)</td>
<td>10%</td>
<td>Week 11</td>
<td></td>
</tr>
<tr>
<td>2nd Assessable Trading Session (Trading in three currency pairs)</td>
<td>15%</td>
<td>Week 12</td>
<td>Please ensure that you are playing a different role from the previous session.</td>
</tr>
<tr>
<td>3rd Assessable Trading Session (Trading in three currency pairs)</td>
<td>15%</td>
<td>Week 13</td>
<td>Please ensure that you are playing a different role from the previous session.</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

Tutorial Participation

- **Objectives:** Tutorial preparation and participation is immensely important to you benefiting from this course. You are expected to play an active role in explaining the assigned readings, expressing you opinions, asking questions, and contributing to the class discussion. This approach is intended to create a more stimulating learning environment and provide you with the opportunity to practice your communication skills.
• **Details:** All forms of class participation will be noted for grading purposes. However, this excludes responses where the student is clearly unprepared or voluntary contributions that are clearly not helpful. Coming to class totally unprepared is equivalent to an absence and will adversely affect your class participation mark.

• **Marking Criteria:** Tutorial participation marks will be based on participation and preparation. **No marks will be awarded for just showing up at the tutorial!**

**Trading Report**

• **Objectives:** To develop trading strategies based on the theory discussed in the lectures.

• **Details:** In weeks 5 to 7, you will be playing a market making game during the tutorials.
  - Prior to attending the tutorial in week 5, you will need to complete a trading report. In the trading report, **devise a proposed strategy for an informed trader, the dealers, and a liquidity (or uninformed) trader.** A strategy means that you have to list all possible scenarios, and state what the agent would do under each scenario (since you will be playing the game, this could serve as a guide to play).
  - After playing the market making game in weeks 5 & 6, it is likely that you will revise your strategy after experiencing the game. Prior to attending the tutorial in week 7, you will need to complete a trading report that assess your trading strategy submitted in week 5 and discuss whether you would retain or make changes to your strategies.

• **Format:** The reports may not be longer than two pages and should be word processed using 12 pt Times New Roman font and 1.5 line spacing.

• **Marking Criteria:** Each trading report is worth 2.5% of your final mark. Your tutor will be looking for evidence of research and thought in the preparation of your strategies. Marks will be deducted for not following the format stipulated above.

**Mid-semester Examination**

• **Objectives:** The mid-semester examination is structured to assess if you have achieved the learning outcomes #1-4 described on page 3 of this unit outline.

• **Details:** The exam will cover **ALL** lecture materials covered prior to the examination and will be held on 23 September 2011. The exam will be two hours plus 10 minutes reading time and will be a combination of multiple-choice and short-answer questions.

**Trading Sessions**

• **Objectives:** The trading session is structured to assess if you have achieved the learning outcomes #5-9 described on page 3 of this unit outline.

• **Details:** Prior to the trading sessions, students are expected to prepare for the session, and familiarise themselves with the major points of importance in the evaluation of a professional dealer and back office as outlined in the simulated trading handbook, which can be downloaded from WebCT. From weeks 11-13, students will be assessed on the key performance indicators (KPIs) as listed below.

• **Marking criteria:**
The KPIs common to the Dealer and Back Office include:
  - Profit
  - Number of transactions done
  - Trading volume
  - Adherence to the code of conduct and rules of the game

Additional KPIs for the Dealer include:
  - Speed and accuracy of transactions
  - Market insight and trading strategies
  - Number of complaints from Dealers at other banks
Additional KPIs for Back Office include:

- Speed and accuracy in entering deal
- Ability to match all transactions at the end of trading game
- Number of complaints from Back Office at other banks

- **Enrolment in trading session:** At the beginning of the semester, students are required to enrol in their preferred trading session through OLCR. Once enrolled, students cannot change their trading session and must attend their allocated trading session. For each trading week (weeks 10-13), the following 5 trading sessions are available:
  - Monday 1pm-4pm
  - Monday 4pm-7pm
  - Tuesday 3pm-6pm
  - Wednesday 11am-2pm
  - Wednesday 3pm-6pm

- **Dealing team allocation:** Students will be required to work in teams of two from weeks 10-13. You will be assigned (randomly) to a team in week 9 and will remain in the same team for all trading sessions. In week 9, you will be provided with your bank name and password that you will be required to use for all trading sessions. Please ensure that you do not disclose your password to students in other teams. You will alternate between the role of Dealer and Back Office each week – please ensure that you do not play the same role in consecutive weeks. Your performance will be monitored by the lecturer and/or the tutor.

**Student Guild**

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

**Charter of Student Rights and Responsibilities**


**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))