FINM4017

Trading and Markets

Most finance courses assume that markets are efficient and that securities can be issued and traded easily and at no cost. In practice markets are more complex and there are substantial costs associated with issuing and trading securities. This course therefore explores (i) how markets are organised; (ii) how trading is conducted in these markets; (iii) the role of different types of market participants; and (iv) how markets are regulated. It considers how these factors influence price formation, investment returns and capital raising.

Mode of Delivery	On campus
Prerequisites	You will need to contact the Research School of Finance, Actuarial Studies & Statistics to request a permission code to enrol in this course.
Incompatible Courses	Incompatible with FINM8017.
Co-taught Courses	FINM8017
Course Convener and Lecturer:	Associate Lecturer Philip Drummond
Phone:	+61 2 612 57305
Email:	Philip.Drummond@anu.edu
Office hours for student consultation:	Tuesday 9am to 11am.
Research Interests	Market microstructure, behavioural finance, asset pricing, liquidity and financial econometrics.
Relevant administrator if any	Tracy Skinner
Phone:	+61 2 612 50487
Email:	Tracy.Skinner@anu.edu.au
Tutor	Dr. Jan Drienko (Jan.Drienko@anu.edu.au)

SEMESTER 1

2018

COURSE OVERVIEW

Learning Outcomes

Upon successful completion of the requirements for this course, students should have the knowledge and skills to:

1. Understand in depth how securities are traded in markets around the world and appreciate how this influences trading costs and liquidity;
2. Be able to communicate the role of regulation and how it impacts participants in financial markets;
3. Understand in depth how price formation can be influenced by market architecture;
4. Understand in depth the interaction between trading in secondary markets and capital raising in primary markets.

Assessment Summary

Assessment Task	Value	Date
1. Tutorial Participation	15%	Throughout semester
2. Mid-Semester Examination	25%	Week 6 or 7
3. Final Examination	60%	TBA

Research-Led Teaching

While students will not directly engage in research as part of this course, the course will cover significant materials including conference papers and journal articles that reflect the cutting-edge research that is being conducted within the field of financial economics. My aim is to emphasise how academic research can influence industry practice and policy making.

Feedback

Staff Feedback

Students will be given feedback in the following forms in this course:

- Verbal comments during lectures, workshops and consultation hours; and,
- Written comments on the WATTLE discussion forum.

Student Feedback

ANU is committed to the demonstration of educational excellence and regularly seeks feedback from students. One of the key formal ways students have to provide feedback is through Student Experience of Learning Support (SELS) surveys. The feedback given in these surveys is anonymous and provides the Colleges, University Education Committee and Academic Board with opportunities to recognise excellent teaching, and opportunities for improvement.

For more information on student surveys at ANU and reports on the feedback provided on ANU courses, go to

http://unistats.anu.edu.au/surveys/selt/students/ and
http://unistats.anu.edu.au/surveys/selt/results/learning/

Policies

ANU has educational policies, procedures and guidelines, which are designed to ensure that staff and students are aware of the University's academic standards, and implement them. You can find the University's education policies and an explanatory glossary at: http://policies.anu.edu.au/

Students are expected to have read the Academic Misconduct Rule before the commencement of their course.

Other key policies include:

- Student Assessment (Coursework)
- Student Surveys and Evaluations

Required Resources

Commonwealth supported students and domestic full-fee paying students generally must be able to complete the requirements of their program of study without the imposition of fees that are additional to the student contribution amount or tuition fees.

Provided that its payment is in accordance with the *Act*, a fee is of a kind that is into any one or more of the following categories:

(a) It is a charge for a good or service that is not essential to the course of study.

(b) It is a charge for an alternative form, or alternative forms, of access to a good or service that is an essential component of the course of study but is otherwise made readily available at no additional fee by the higher education provider.

(c) It is a charge for an essential good or service that the student has the choice of acquiring from a supplier other than the higher education provider and is for:

  (i) equipment or items which become the physical property of the student and are not consumed during the course of study; or

  (ii) food, transport and accommodation costs associated with the provision of field trips that form part of the course of study.

(d) It is a fine or a penalty provided it is imposed principally as a disincentive and not in order to raise revenue or cover administrative costs.

Additional course costs

Undertaking this subject incurs no additional costs other than textbooks and course materials.

Examination material or equipment

Non-programmable scientific calculator

Recommended Resources

de Jong and Rindi, B. (2009) The Microstructure of Financial Markets. Cambridge

Teall, J. L. (2013) Financial Trading and Investing. Elsevier.

Additional reading materials including journal articles, newspaper articles will be available on WATTLE.

COURSE SCHEDULE

Week	Summary of Activities			Assessment
	Lecture	**Workshop**	**Tutorial**	
1	The Role of Markets & Trading Process	-	-	
2	Order Driven Markets & Intermediated Markets	-	Trading Game 1 (Introduction) Tutorial Questions	
3	Analysis of Prices I: Random Walk, Price Formation Process and Roll Model	Analysis of Trading Data	Trading Game 2 (Warm Up) Tutorial Questions	
4	Analysis of Prices II: Extensions of the Roll Model	Analysis of Trading Data	Trading Games 3 & 4	
5	Public Information Arrival	Analysis of Trading Data	Trading Games 5 & 6	
6	Adverse Selection, Trading & Spreads I	Analysis of Trading Data	Trading Games 7 & 8	Mid-Semester Exam in Week 6 or 7
Mid-Semester Teaching Break				
Mid-Semester Teaching Break				
7	Adverse Selection, Trading & Spreads II	Analysis of Trading Data	Trading Games 9 & 10	Mid-Semester Exam in Week 6 or 7
8	The Impact of Trading Rules on Trading Outcomes	Analysis of Trading Data	Trading Games 11 & 12	
9	Liquidity and Benchmarking	Analysis of Trading Data	Trading Games 13 & 14	
10	Hasbrouck’s Information Share	Analysis of Trading Data	Tutorial Questions	
11	Models of the Limit Order Book I	Additional Lecture Material	Tutorial Questions	
12	Models of the Limit Order Book II	Additional Lecture Material	Tutorial Questions	

ASSESSMENT REQUIREMENTS

The ANU is using Turnitin to enhance student citation and referencing techniques, and to assess assignment submissions as a component of the University's approach to managing

academic Integrity. For additional information regarding Turnitin please visit the ANU Online website.

Students may choose not to submit assessment items through Turnitin. In this instance you will be required to submit, alongside the assessment item itself, copies of all references included in the assessment item.

As a further academic integrity control, students may be selected for a 15 minute individual oral examination of their written assessment submissions.

Any student identified, either during the current semester or in retrospect, as having used ghost writing services will be investigated under the University's Academic Misconduct Rule.

Assessment Tasks

Participation

The 15 participation marks are divided into three parts:

1. **Weeks 2 – 9:** Students can earn 5 participation marks if they participate in at least seven of the eight trading game tutorials.
2. **Weeks 4 – 9:** The top (20%) performing students in these trading games will earn 5 participation marks. The mechanism for determining the top students will be discussed in lectures and outlined on WATTLE.
3. **Weeks 2, 3, 10, 11, 12:** Students that hand in a copy of their tutorial solutions to the tutor at the beginning of the class for four out of five of these tutorials will earn 5 participation marks. **The solutions do not have to be correct for the student to receive the participation marks. The solutions will only be judged to determine whether the student made a genuine attempt to answer the tutorial questions before attending the tutorial.**

Examinations

- Mid-Semester Examination – 2 hours (Week 6 or 7). Total weighting: 25%. This is a closed book exam with no formula sheet. A mixture of theory and practical (numerical) questions will be asked. Students will need to review and revise all materials (weeks 1-6) pertaining to the course. **No past exam papers are available for practice.**
- Final Examination – 3 hours (Date: TBA). Total weighting: 60%. This is a closed book exam with no formula sheet. A mixture of theory and practical (numerical) questions will be asked. Students will need to review and revise all materials (weeks 1-13) pertaining to the course. Students will be provided with further details regarding the exam as it approaches. The marking criteria will be based on model solutions and answers prepared by the lecturer. **Past exam papers will be available for practice.**

Scaling

Your final mark for the course will be based on the **raw** marks allocated for each of your assessment items. However, your final mark may not be the same number as produced by that formula, as marks may be **scaled**. Any scaling applied will preserve the rank order of raw marks (i.e. if your raw mark exceeds that of another student, then your scaled mark will exceed the scaled mark of that student), and may be either up or down.

Privacy Notice

The ANU has made a number of third party, online, databases available for students to use. Use of each online database is conditional on student end users first agreeing to the

database licensor's terms of service and/or privacy policy. Students should read these carefully.

In some cases student end users will be required to register an account with the database licensor and submit personal information, including their: first name; last name; ANU email address; and other information.

In cases where student end users are asked to submit 'content' to a database, such as an assignment or short answers, the database licensor may only use the student's 'content' in accordance with the terms of service – including any (copyright) licence the student grants to the database licensor.

Any personal information or content a student submits may be stored by the licensor, potentially offshore, and will be used to process the database service in accordance with the licensors terms of service and/or privacy policy.

If any student chooses not to agree to the database licensor's terms of service or privacy policy, the student will not be able to access and use the database. In these circumstances students should contact their lecturer to enquire about alternative arrangements that are available.

Tutorial Seminar Registration

Tutorial signup for this course will be done via the Wattle website. Detailed information about signup times will be provided on Wattle or during your first lecture. When tutorials are available for enrolment, follow these steps:

1. Log on to Wattle, and go to the course site
2. Click on the link "Tutorial enrolment"
3. On the right of the screen, click on the tab "Become Member of….." for the tutorial class you wish to enter
4. Confirm your choice

If you need to change your enrolment, you will be able to do so by clicking on the tab "Leave group…." and then re-enrol in another group. You will not be able to enrol in groups that have reached their maximum number. Please note that enrolment in ISIS must be finalised for you to have access to Wattle.

SUPPORT FOR STUDENTS

The University offers a number of support services for students. Information on these is available online from http://students.anu.edu.au/studentlife/