

BRAIN POWER

By Danielle Roller

Problems such as gambling addictions and poor saving behaviour might be solved with new insights into the connection between emotions, impulsivity and decision-making.

Neuromarketing at Melbourne in 2009 Dr Harris taught the first undergraduate Neuromarketing course in the world as part of the

Bachelor of Commerce offered by the Faculty of Business and Economics. Although Neuroeconomics is increasingly offered within graduate programs this is the first dedicated neuromarketing curriculum to be delivered in the undergraduate level. The Neuromarketing subject provides students with unique interdisciplinary knowledge base that informs their understanding of marketing principles and practice.

Dr Philip Harris, cognitive neuroscientist in the Department of Management and Marketing, and Dr Carsten Murawski, economist in the Department of Finance, are involved in a unique cross-disciplinary project integrating research from economics, psychology, and neuroscience to make what they hope to be "a great leap forward" in the study of decisionmaking.

pharmacology and genetics to improve our understanding of the role of emotional processes in consumer and financial decisions," Dr Harris says. "The research will provide a deeper understanding of the role of emotions in decision-making in healthy people, and may also enhance our understanding of decision-making processes implicated in addictive behaviour," says Dr Harris.

Dr Harris suggests an understanding of specific emotional processes on decisionmaking has significant policy-making implications in Australia. These include promotion of savings for superannuation, abstinence from addiction-related behaviour, and maintenance of healthy life-styles.

Dr Murawski's role in the project is to focus on modeling of the decision-making process and integrating data on economic behaviour with data on brain activation.

Dr Murawski says, "Economic modeling has already helped to better understand the neural basis of certain basic types of behaviour like



In a way, we are trying to decode brain activity to gain a better understanding of the way we make economic decisions.

This new approach is called neuroeconomics. The team includes Professor Gary Egan, head of the Neuroimaging Group in the University's Centre for Neuroscience, Dr Olivia Carter, an expert in perceptual consciousness and neuropharmacology, and Dr Robert Hester, a specialist in addiction research, both from the School of Psychology. Together the researchers are investigating the brain processes underlying fundamental aspects of human decision-making to provide a deeper understanding particularly of the role of emotions in decisions.

As the project leader, Dr Harris brings a unique perspective. With a background in cognitive neuroscience as well as experience in marketing and advertising, Dr Harris' expertise spans both the neuroscience of decision-making and the economic aspects of decision-making.

"Our team of clinical and applied researchers will be combining insights from behavioural experiments, brain imaging,

eye and hand movement; now the challenge is to achieve a similar understanding of more complex behaviour, including economic decision-making.

"Economic models of decision-making seem to work rather well when we try to explain relatively basic behaviour, like eye movement. When we apply our models to more complex decisions like economic decisions, how we trade off consumption now (spending) against consumption later (saving), how much risk we take, our models don't really work very well.

"In fact, they perform rather poorly when we try to predict actual human behaviour."

Human behaviour seems to deviate systematically from the classical economic models and often appears to be rather inconsistent. Over the last 20 years so, economists have identified a long list of cognitive "biases" and now are trying to discover the brain processes that bring about this behaviour.

The researchers believe that the integration of economics, psychology, and neuroscience will significantly advance our understanding of decision-making and crack some of the puzzles they have been struggling with.

Participants in the studies make a set of decisions, for example, a series of choices between a smaller, sooner reward and a larger, later reward. Participants' choices are observed during a computer-based task.

In an increasing number of experiments, participants are put in a brain scanner (MRI) to measure brain structure and brain activation during decision making.

This allows the researchers to discover which brain regions are involved in certain aspects of decision-making, how they interact with each other, and how their activation brings about certain behaviour. ■

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ARE YOUR DETAILS UP TO DATE?

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DEPARTMENT OF FINANCE ALUMNI NEWSLETTER
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DEPARTMENT UPDATE FOR 2010 - SEMESTER 1

Professor Bruce Grundy



The growing demand for a Melbourne University education in Finance has kept the Department thriving. As the alumni base of graduates of the Finance Honours, the Master of Management

(Finance), the Postgraduate Diploma in Finance, the Master of Finance, the Master of Applied Finance, the research-based Master of Commerce (Finance), the PhD in Finance plus the many graduates with a finance major grows, the Department continues to build its networks. There will be a dinner for Finance Honours graduates on Tuesday October 26, 2010 at the Westin Melbourne with one of our honours alumni, Avi Gilboa of Uitas Capital, as the after-dinner speaker. There will also be a dinner reception for graduates of all Finance programs at Lost Heaven on the Bund in Shanghai on Monday September 27, 2010, as well as a drinks reception for all Finance Alumni in Hong Kong on November 30, 2010. Dr Ian O'Connor will speak briefly in Shanghai about developments in the Faculty and the new building for the Faculty of Business & Economics (FBE) and Dr. Harry Scheule will speak in Hong Kong. All Finance graduates are invited to contact Anthea Barry, antheab@unimelb.edu.au, and register their contact details so they can receive email notices of future events. The Department endeavours to keep our alumni current by participating in the FBE Alumni Refresher lecture series each year and in the wake of the GFC, Professor Kevin Davis recently presented a lecture on "Rethinking Financial Regulation."

Enrolments in the Master of Finance and the Master of Management (Finance) continue to grow. The Department is working on the continuous design of all its programmes and a redesign of the Master of Applied Finance to draw on more of the work experience of the participants is currently underway and the Department has recently added undergraduate and graduate electives in Ethics in Finance. Our faculty continue to serve as judges in Case Competitions in which students analyse contemporary challenges facing business. Dr Ali Akyol judged the recent, ANZ-sponsored "Management of Reputational Risk in the Banking Sector" competition and provided feedback to the Melbourne University teams participating. In July Dr Sean Pinder attended the CFA Institute's University Partners Program Conference in Charlottesville, North Carolina to keep abreast of developments in the CFA programme. As a University partner, the

Department of Finance will in future years be able to allocate five Partner Program scholarships to those wishing to undertake the CFA exams in addition to the five Associate Professor Asjeet Lambda, as a CFA charter holder, has been able to allocate. In the latest round CFA scholarships were awarded to Bella Chan – Finance (Honours), Felix Gozali – Finance (Honours), Yiwen Guo – Master of Finance, Marcus Guzzardi – Master of Commerce (Finance) and Douglas Tan – Finance (Honours).

With the move to the Melbourne Model in which University of Melbourne undergraduates study a set of breadth subjects outside their primary degree, a new source of interest in our undergraduate Finance offerings has grown. We intend that some students from, say, biosciences who choose to take a sequence of undergraduate finance subjects will later want to return to grad school and specialize in Finance. The Department is currently developing breadth sequences for those interested in personal financial management, real estate finance and the financing of start-up ventures.

The Department of Finance hosted two international conferences in semester one of 2010. In March the "2010 Finance Down Under Conference" featured keynote addresses by Professor Stephen LeRoy of UC Santa Barbara and Professor Maureen O'Hara of Cornell as well as papers by academics from Hebrew University, University of Houston Drexel, Harvard, Manchester, the Federal Reserve Bank of New York, Emory, Singapore Management University and the University of Iowa. In June, the Department hosted "The Society for Financial Econometrics (SOFIE) Third Annual Conference" with invited lectures by Professor Yacine Ait-Sahalia of Princeton, Professor Stephen Brown joint of NYU and our own Finance Department, Professor Christian Gourieroux of the Centre de Recherche en Economie et Statistique, Professor Francis Diebold of the University of Pennsylvania, Professor Nikolaus Hautsch of Humboldt, Professor Andrew Patton of Duke and Professor Guofo Zhou of Washington University in St Louis. Papers were also presented by academics from the University of North Carolina, Toronto, Tilburg, Western Australia, Amsterdam, Tasmania, America University, Australian National University, Duke, Oxford, Lausanne and the Bank of Mexico. Planning is well underway for the March 2011 Conference "Finance Down Under: Building on the Best from the Cellars of Finance" which will honour the 50th anniversary of the Nobel prize winning Miller-Modigliani publications.

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PHD COORDINATOR UPDATE

By Dr Spencer Martin

PhD programs usually exist "under the radar". Everyone knows that new junior professors must originate somewhere, but few know the process that produces them. In this issue, I invite you to take a look at the professorial production line hidden within your department.

New doctoral students begin with an extremely rigorous sequence of coursework in economics, statistics, and finance. These subjects often bear titles similar to undergraduate offerings, such as "Microeconomics" or "Corporate Finance", but the treatments are much more abstract and grounded in firm mathematical logic. This framework builds a strong discipline for the persistent, deductive, methodical approach that production of convincing new research requires. In parallel to the coursework, students are learning to work successfully as tutors and are attending research workshops to see experienced leaders presenting their latest works. These tasks will continue throughout the program.

With over a year of such training and grounding in the current state of the art, the students are required to write a formal research proposal and have it approved following formal presentation in a confirmation seminar. The seminar lasts an hour and each candidate must satisfy a panel of three professors that their proposal is viable and original.

Following confirmation, the real work begins: a dissertation (aka thesis). The very word evokes images of book-length tomes steeped in arcane details. Actually the thesis is merely a report on the candidate's research project. A successful thesis paper not only documents the procedure and the results carefully, but also makes it clear how the research contributes new knowledge and expands the boundaries of what was previously known. A really successful paper further details how the findings are not only new, but interesting and useful as well. The required attention to detail and the high standards of originality mean that a thesis can take up to two years to complete.

At long last, thesis written, two hurdles remain. The candidate must present a completion seminar, open to the public, and receive feedback and advice from an expert panel before judgment. Finally, the document is submitted for evaluation. Well-established professors chosen from outside the university must determine whether or not the thesis has sufficient merit to pass. Only then is a PhD conferred. ■

LOCKED OUT OF THE MARKET

Gregory Schwann and Callum Scott aren't just looking at "the sticks" of real estate. By Danielle Roller.

Associate Professor Gregory Schwann and Mr Callum Scott, of the Department of Finance are researching two related aspects of the housing market. Affordability of home ownership and the tax advantages of income property investment.

Callum Scott explains that the passionate interest Australians take in home ownership is what makes research into this area so fascinating, "From an Australian perspective, I don't know if home ownership is the largest per capita in the world, but there is much more grass roots interest, certainly in residential property than you get in say France or Germany. There's much more attention paid to it by the general public. It's a much more emotive issue as well. Almost without exception you pick the paper up there's a story about interest rates."

Greg Schwann says that researching real estate within a finance research context is less common in Australia than abroad.

"The traditional focus of real estate in Australia, until relatively recently has always been through architecture schools.

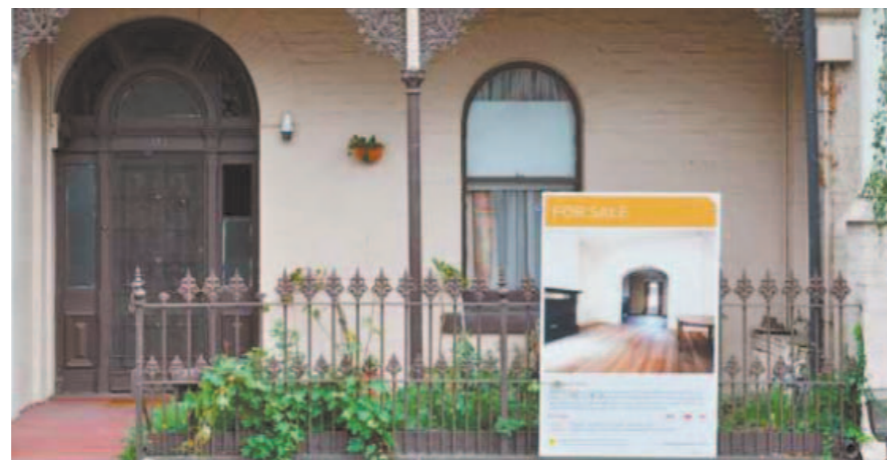
Their focus has always been, for obvious reason, the building itself, the concrete, "the sticks" as they call it.

"Whereas the academy of real estate worldwide now emanates out of business schools and is much more concerned about issues of pricing the fundamental real estate asset."

Schwann believes that this is where the focus belongs because "Real estate is the largest asset class in the world, way ahead of bonds, way ahead of equities, way ahead of derivatives."

They are also looking into the affordability of residential of real estate in Australia. Explains Greg Schwann, "Much of what is publicized deals with the comparison of income versus initial purchase price. And this shows that houses are much less affordable than in the past. This is only one aspect of affordability. We determine the user cost of housing over a 20-year period, looking at the price you would sell it for, how much interest is being paid. This research reveals that housing is much more affordable than is generally believed, once you have actually entered the market."

In the future the group plans to look at the tax aspects of income property investment - the purchasing of an investment property with the sole aim of renting it out for income. Is negative gearing really the tax perk it seems? And how different is Australia's tax system in this regard to other developed countries? ■



DEPARTMENT UPDATE FOR 2010 - SEMESTER 1

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This newsletter must also express the Department's thanks to those of our staff who are leaving us. We wish Dr Rayna Brown all the best in her retirement after more than a decade of productive teaching and research in the Department and we congratulate Christine Brown on her new appointment as a Professor of Finance at Monash University. One of our very productive younger academics, Dr Patrick Verwijmeren, will also leave to take a position as an Associate Professor of Finance at VU University Amsterdam. Patrick will retain a three-year visiting position with us and return each year to lecture into the PhD Corporate

Finance class. The Department has succeeded in hiring an excellent new Professor, Spencer J. Martin. Before joining us, Spencer taught at Carnegie Mellon University. He is a Wharton graduate and an international expert on credit spreads and momentum investing strategies. Spencer has taken on the role of Director of the Department's PhD programme. The Department is now looking forward to being joined in the second half of 2010 by two new assistant professors, Stephen Petry from the Cambridge Judge School of Business and Ziemowit Bednarek from the Haas School of Business at UC Berkeley.

The Department is an international leader in research and teaching in Finance and we look forward to the assistance of our alumni in further building our joint reputation. ■

FINANCE PROFESSIONAL PROGRAMS



Dr Sean Pinder and Dr Les Coleman

The most significant development this year for the finance professional programs has been the formal external reviews of the Postgraduate Diploma in Finance, Master of Finance, and the Master of Applied Finance. This is a regular process, which brings together directors of the programs along with senior staff from the Faculty of Business and Economics and outsiders. Full details of courses, relevant data and subjective analyses are brought together, and followed by critical examination of all aspects of the programs, with particular emphasis on how well our course design, delivery and assessment meet their stated objectives. This process is akin to a quality audit, and also an opportunity for those inside and outside the programs to take stock and make any appropriate improvements.

Whilst a number of issues are yet to be finalised, one pleasing outcome is that we are taking the opportunity to shift the entry requirements and content of the Master of Applied Finance to be more attractive to students with a finance background.

The finance professional programs are specifically tailored to meet the needs of people who have – or wish to develop – a career in finance. Thus they are specialist offerings. In addition we expose students to cutting edge practice with many courses taught by experienced practitioners. Theory, too, is important as it provides guidance in uncertain areas and we delight in having courses taught by senior faculty from New York University and other leading overseas institutions.

Places in the programs continue to attract strong demand and we are confident they provide an excellent grounding amidst what can sometimes seem to be turmoil in financial markets. ■

HONOURS UPDATE



Dr Ian O'Connor

As the GFC fades into history, it is timely to announce that the Finance Honours alumni dinner has returned and this year is to be held in both Shanghai and Melbourne. Since 2002, there has been an annual honours alumni dinner, organized and conducted by the Department and held on campus at University House. The success of the honours program means that alumni are located in the key financial centres of the globe. This year, the inaugural Shanghai dinner was held on Monday 27th September at Lost Heaven on the Bund, I attended this during the mid semester break. Then, this month the

FINANCE PROFESSIONAL PROGRAMS UPDATE

The Master of Commerce (Finance) is one of the Department of Finance's flagship programs and accepts outstanding scholars with a specialisation in Finance. The program offers advanced academic training in finance. It includes the writing of a research report in which the students work independently apply their knowledge, analytical skills as well as ideas and visions to answer current research questions. The program provides a valuable foundation towards a future entry into a PhD program in Finance.

The Department of Finance works closely with the Australian Centre for Financial Studies (ACFS) which is located in Melbourne. The ACFS hosts three research reference groups in Banking and Financial Institutions, Funds Management and Superannuation and Insurance in which a selection of eminent industry and academic participants develop research agendas. The research agenda and ideas are circulated with MCom students who include this valuable industry feedback into their research reports.

One example is Bo Pang who is currently supervised by the research director of the ACFS and Professor of Finance Kevin Davis of our department. Bo works on the relationships between the cash rate and Australian banks' wholesale funding costs in "The Noughties". His first findings suggest that the wholesale funding costs moved in line with the cash rate before the GFC. However, this relationship has been weakened since the GFC and may be attributed to the increase in liquidity risk and default risk.

The program is growing in popularity. The current enrolment number is at 15 students.

2010 Melbourne dinner will be held on Tuesday 26th October with the venue being the Westin Room III, The Westin Melbourne. Ken Wong from Macquarie Capital is playing a key role. Information about the Shanghai and Melbourne events is available from Christine Cheng at cche@unimelb.edu.au.

A number of alumni have been successful in converting their honours essay into scholarly publications. Congratulations to Monica Octavia (2007) whose essay, co-authored with her supervisor Dr Rayna Brown was published in the Journal of Emerging Markets. Monica received assistance from the Kinsman Student Scheme.

Congratulation also go to Stephanie Ong (2007) for publication of her work in the journal Abacus, with her supervisor Dr André Gyax.

Current students have also been active. Claire Heeps carried the Melbourne Finance flag with her recent attendance at the National Honours Colloquium at the University of New South Wales. Early reports indicate that the "Colloquium was amazing". The full story and social news from the colloquium will appear in the next issue of Taking Stock. ■



Dr Harald (Harry) Scheule

Let me take at this stage the opportunity to congratulate the following students for their successful completion of the MCom program in Semester 1, 2010:

Chen, Jiahao
Financial Expertise of Directors.
Supervisor: Dr Ali Akyol

De Silva, Jasenthu Liyana
Seasonality In The Colombo Stock Exchange: Empirical Evidence On Market And Industry Effects.
Supervisor: Dr Gil Aharoni

Ding, Wenjun
The Relationship Between CEO Compensation Firm Risks And Performances.
Supervisor: Dr Harald Scheule

Jiang, Xiao Mei
The Evolving Industry Effect in Capital Structure.
Supervisor: Dr Ian O'Connor

Shen, Ju
The Gender Gap in Executive Compensation.
Supervisor: Associate Professor Asjeet Lamba

Tijoe, Edwin Soekandar
Banking Supervision and Regulation: What Works Best During Systematic Banking Crisis.
Supervisor: Dr Carsten Murawski

Wang, Ren Xiang
Globalization and Bidder Gains: A Comparison Study Between US Corporations That Acquire Targets From Emerging Countries And Developed Countries.
Supervisor: Associate Professor Christine Brown