

Week 2 – Financial regulation:

Monetary authorities:

RBA:

- *Australia's central bank, responsible for conducting monetary policy, the payments system and the stability of the entire financial system.*
- Acts as the government's banker, issues currency notes, overseeing the payments system.
- Determines the cost of debt
- Monitors inflation:
 - Too much inflation is undesirable; indicates the economy is overheating where incomes and prices of goods & services are growing at an unsustainable level.
 - Too little inflation is undesirable; indicates that economy is weakening where income is flat or declining, resulting in poorer demand for goods & services, which flow on to poorer wage growth and higher unemployment.
- The payments system:
 - It promotes the efficiency and stability of the Australian currency (AUD) and the payments system
 - It provides the facilities for the settlement of transactions
 - It acts as the banker to the Australian government.

APRA:

- *is responsible for the enforcement of company and financial services laws.*
- Monitors regulated entities to ensure compliance with legislation and policies
- Advises government on legislation.
- Supervisors ADIs, insurance companies and life-insurance companies.
- Determining the CAR (prudential regulation)

Why does APRA monitor ADIs?

- To maintain Investors confidence.
- To prevent bank failures from spreading to other banks; limit Contagion.
- Protect the stability of the financial system

ASIC:

- Regulating **licensing and monitoring** financial markets, financial instruments and advisors as well as monitoring the disclosure and conduct of Australian companies and services providers.
- Regulates financial instruments, securities, corporations and futures.
- Consumer protection in superannuation, insurance, deposit-taking and credit.

As a regulator for IPOs, ASIC influences the cost of equity by determining the regulations that must be followed

Week 3 – Introduction to financial math

Value v price:

Value = the worth of an asste

Price = the amount traded for assets by consumers based on forces of supply and demand

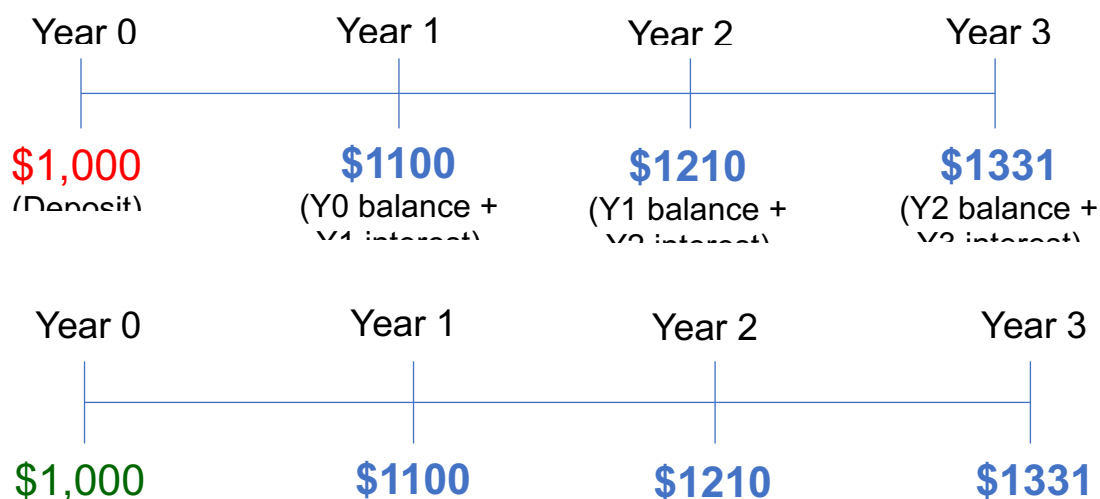
The time at which of money is earned or paid affects its value

Three rules apply:

1. Money can only be compared/combined in the same period
2. Calculating a Future Value (FV) given periodic growth on an investment is called **compounding**
3. Calculating a Present Value (PV) given periodic growth on an investment is called **discounting**

$$FV = PV(1 + i)^n$$

$$PV = \frac{FV}{(1 + i)^n}$$



The **Yield** or **Return** of an asset is a widely used metric for relative performance.

- Yield/Return is commonly a relative performance measure, i.e. how an asset performs and which asset is performing better. In a simple form...
- It expresses the money earned by the asset, as a percentage of the price paid for the asset.

$$Yield = \frac{Earnings}{Price}$$

EAR: The effective return that includes the compounding effect of the frequency of payment per annum

$$EAR = \left(1 + \frac{i}{m}\right)^m - 1$$

Where ...

i = nominal rate or Annual % Rate

m = frequency of payment / annum

n = number of years,

It is important to distinguish between various types of return:

1. **Nominal return:**
 - Also known as the annual percentage return (APR).
2. **Effective return:** e.g. EAR
 - The return that includes the effect of compounding.
3. **Real return.**
 - The return that accounts for the erosion of purchasing power due to inflation.
4. **Required rate of return**
 - The minimum return needed. WACC is an example of a RRoR.
5. **Expected rate of return**
 - The anticipated/forecasted return that will be earned on an asset.

The required rate of return is commonly used as a discount rate in PV calculations.