# BFF2701 Equity Markets · Exam Revision Sheet

MONASH UNIVERSITY · SEMESTER 2, 2026 · FINANCE

Full guide + ask Sia about BFF2701

**SIDE 1 / 2 · WHAT THE FINAL REWARDS** — EXAM REVISION SHEET · definitions → rule → calculation → interpretation — V2 · 2026-10-25

## 1 · Exam map

COURSE.JSON · BRIEF

2 | MST 20% | Stock | Trade | Final examination 60%

| ASSESSMENT | WT |
|---|---|
| Investment Strategy For Trading Presentation | 2% |
| Mid-Semester Test | 20% |
| Stock Exchange Presentation | 10% |
| Trading Presentation | 8% |
| **Final Examination** · individual | **60%** |

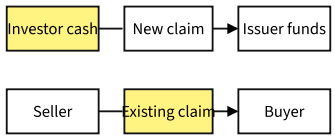
Permitted materials: not confirmed for this offering in the course materials we hold — check the exam instructions on the LMS.

The current materials do not publish final duration, section structure or question types. Revise the whole taught scope. The guide's answer pattern is: **name the mechanism → calculate with units → interpret economic meaning → explain the trade-off.**

## 2 · Market boundary

C1 OVERVIEW + FAQ

***Investment decision*** chooses the security; ***trading decision*** chooses venue, order type, timing, size and execution. A sound valuation can still be paired with costly execution.




Primary: new claim + issuer gets cash. Secondary: existing claim changes owner.

| TEST | PRIMARY | SECONDARY |
|---|---|---|
| Claim | Created | Transferred |
| Cash to issuer? | Yes | No |
| Function | Financing | Liquidity + price discovery |

**ANSWER CHECK** *Follow the cash and claim; then state the capital or ownership consequence. Venue name alone does not classify the transaction.*

## 2b · Claims + exchange objectives

C1 MAP + BODY

| CLAIM | CASH-FLOW / CONTROL POSITION |
|---|---|
| Ordinary share | Residual distributions; commonly voting rights. |
| Preferred share | Distribution priority; usually more limited voting rights. |

An ***equity claim*** is residual ownership, not a promise of repayment. In classification questions, distinguish ownership rights from the trading service used to transfer them.

| EXCHANGE OBJECTIVE | QUESTION TO ASK |
|---|---|
| Capital allocation | Do funds reach productive uses? |

## 3 · Structure chooser

C2 OVERVIEW + MAP

| MECHANISM | PRICE SUPPLIED BY | GAIN / RETAINED RISK |
|---|---|---|
| Order-driven | Competing public limit orders | Transparent competition / queue + non-execution |
| Quote-driven | Dealer bid and ask | Immediacy / spread + dealer exposure |
| Hybrid | Book plus liquidity support | Choice + stability / mixed rules |
| Crossing network | Compatible interest | Lower displayed impact / uncertain match + fragmentation |

| ORDER | QUOTE | HYBRID |
|---|---|---|
| book price-time competition | dealer bid / ask immediacy | book + dealer choice |

Ask four questions: who prices, when orders meet, what is visible, which risk remains?

## 4 · Timing + orders

C2 GLOSSARY + FAQ

| | CALL | CONTINUOUS |
|---|---|---|
| Interaction | Orders accumulate; one clearing event | Compatible orders match on arrival |
| Benefit | Concentrates liquidity + information | Immediacy |
| Cost | No continuous execution | Flow dispersed through time |

***Market order:*** prioritises execution, gives up price control; a large order can walk thin depth. ***Limit order:*** caps a buy or floors a sell, but can miss as the market moves or earlier orders exhaust the opposite side.

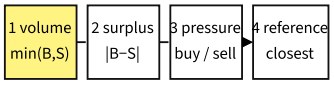
**BOOK RULE**

```
Bids: high → low · asks: low → high
At equal price: earlier time → earlier execution
```

Price before time. Improving price outranks an earlier but worse price; time only breaks equality at a price.

## 5 · Call-auction algorithm

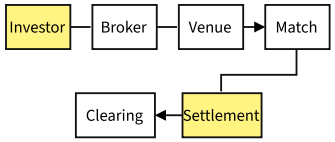
C2 WORKED + STUDY




Compute cumulative demand and supply at every candidate; apply later tie-breaks only if needed.

## 6 · Actors + Australian routes

C3 OVERVIEW + FAQ




The trade is not finished at the match: obligations are cleared, then securities and cash settle.

| ACTOR | ROLE / RISK TEST |
|---|---|
| Investor | Supplies capital; retail or institutional does not determine order behaviour. |
| Broker | Acts for a client; searches, routes or negotiates. |
| Dealer | Principal using own capital; bears inventory + information risk. |
| High-frequency trader | May supply passive quotes or demand liquidity; classify the order, not speed. |
| Operator / regulator | Trading rules + infrastructure / conduct oversight + surveillance. |
| Clearing / settlement | Determine obligations / deliver securities against cash. |

## 7 · Venue comparison

C3 BODY + STUDY

| ROUTE | CORE MECHANISM | TRADE-OFF |
|---|---|---|
| ASX | Lit electronic order book; price-time priority; calls around continuous trading | Displayed price + depth; exposed interest |
| Cboe | Competing electronic price-time book | Competition + choice; fragmentation |
| CentrePoint | Hidden midpoint execution linked to displayed prices | Potential spread/impact saving; uncertain match + less displayed information |

**Fragmentation answer:** competition can lower fees and stimulate services, yet dispersed order flow makes price comparison, routing and evidence of best execution harder. A broker compares price, depth, execution likelihood and total cost across venues.

**CLASSIFICATION TRAP** *Broker ≠ dealer. Ask whether the intermediary acts for a client or commits its own capital.*

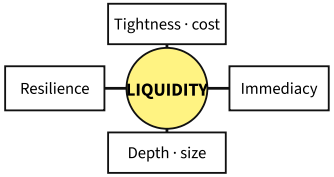
## 7b · Participant diagnostic

C3 STUDY STRATEGY

| ASK | WHY IT CHANGES THE ANSWER |
|---|---|
| Whose money is exposed? | Separates client investment from principal inventory. |
| Whose instruction is followed? | Distinguishes broker service from dealer position-taking. |

## 8 · Liquidity dimensions

C4 OVERVIEW + GLOSSARY




One measure cannot answer cost, speed, scalable size and recovery at once.

| DIMENSION | QUESTION | EVIDENCE |
|---|---|---|
| Tightness | Cost of small immediate trade? | Spread |
| Depth | Quantity near current prices? | Book size; price impact |
| Immediacy | How quickly can desired trade occur? | Time to execute |
| Resilience | How quickly after imbalance? | Price/depth recovery |

A market may be deep but not tight; a narrow quote need not support a large order; a fast fill may impose severe impact; a deep book that does not replenish is not resilient. Turnover alone is not a complete liquidity verdict.

## 9 · Spread method

C4 WORKED + FAQ

**WRITE MIDPOINT FIRST**

```
m = (ask + bid) / 2
Quoted spread = ask - bid
Relative quoted spread = (ask - bid) / m
Effective spread = 2|trade price - m|
One-way midpoint shortfall = |trade price - m| × shares
```

| MEASURE | WHAT IT ANSWERS | UNIT CHECK |
|---|---|---|
| Quoted | Displayed immediacy cost | $/share |
| Relative | Cost scaled across price levels | % of midpoint |
| Effective | Realised round-trip convention | $/share or % |
| Shortfall | One-way realised dollar gap | Total $ |

Do not double total shortfall. The factor 2 belongs to the effective-spread convention. For a buyer, trade above midpoint is a cost; for a seller, trade below midpoint is a cost.

**INTERPRET** *Effective < quoted means the fill improved on the displayed quote; it does not erase all fees, delay or impact.*

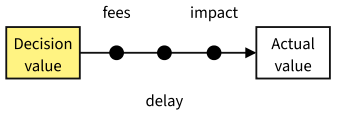
## 9b · Match evidence to claim

C4 STUDY + C5 FAQ

| CLAIM IN PROMPT | EVIDENCE NEEDED |
|---|---|
| "Displayed trading is cheaper" | Quoted + relative spread; same time and comparable prices. |

## 10 · Total execution cost

C4 COSTS + C7 SHORTFALL



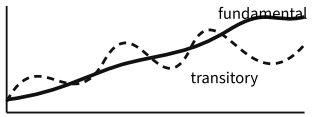

Paper decision → actual portfolio: explicit and implicit costs must reconcile.

| EXPLICIT | IMPLICIT |
|---|---|
| Brokerage, exchange fees, applicable taxes | Spread, market impact, delay, opportunity cost of missed quantity |

**Large orders** consume depth, worsen average price and may reveal information. **Urgent orders** accept spread/impact to gain immediacy. **Patient limits** may supply liquidity but risk delay or non-execution. Start advice with urgency, size, signal life and volatility—not a favourite venue.

## 11 · Volatility diagnosis

C5 OVERVIEW + WORKED




Persistent repricing can reflect information; reversal is evidence of temporary pressure.

| PATTERN | LIKELY CHANNEL | CHECK |
|---|---|---|
| Move persists after credible news | Fundamental value revision | Later midpoint |
| Trade move later reverses | Temporary order pressure | Recovery path |
| Trades oscillate; midpoint stable | Bid-ask bounce | Quotes vs trades |
| Spread widens in uncertainty | Information + inventory risk | Depth, news, dealer position |

Lower volatility is not automatically better: rapid adjustment to value-relevant information can improve discovery. Judge liquidity + information + costs + reliability, never one statistic alone.

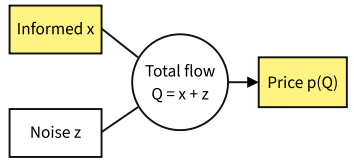
## 14 · Risk + arbitrage

C8 OVERVIEW + FAQ

| MEASURE | SOURCE | MEANING / CAUTION |
|---|---|---|
| Historical volatility | Past returns | Window + sampling choice; backward-looking |
| Implied volatility | Option price + model | Forward-looking information, not guaranteed realised volatility |

## 12 · Dealer information loop

C6 OVERVIEW + FAQ




The dealer sees mixed order flow, not trader labels; noise partly conceals informed demand.

***Adverse selection:*** a better-informed trader chooses when an uninformed quote is favourable. Repeated buys may imply higher value; repeated sells may imply lower value. Quote revision can also manage unwanted inventory: information effects may persist, inventory shading can reverse after position normalises.

**LINEAR IMPACT RULE**

```
P = P₀ + λQ
λ unit: dollars per share of net order flow
higher λ ⇒ more impact per share ⇒ lower depth / greater information sensitivity
```

Positive net buying raises price under this sign convention. A larger informed order reveals more and moves the price against the trader, so size balances information advantage against endogenous impact.

## 13 · Performance chooser

C7 OVERVIEW + FAQ

| SHARPE | TREYNOR | JENSEN |
|---|---|---|
| excess return ÷ total σ | excess return ÷ beta | realised − required |
| whole portfolio | diversified | model residua |

Choose the risk concept and benchmark before ranking returns.

```
Sharpe = (Rₚ - Rf) / σₚ
Treynor = (Rₚ - Rf) / βₚ
Jensen α = Rₚ - [Rf + βₚ(Rm - Rf)]
VWAP = Σ(PᵢVᵢ) / ΣVᵢ
```

| QUESTION | MEASURE | LIMITATION |
|---|---|---|
| Excess return per total risk? | Sharpe | Penalises diversifiable risk |
| Per systematic risk? | Treynor | Needs beta to be the right denominator |
| Above model-required return? | Jensen α | Model + period dependent |
| Fill vs market activity? | VWAP | Interval may omit prior delay |
| Decision vs realised outcome? | Implementation shortfall | Declare side + sign |

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Check your exam instructions on the LMS for what you may bring; use this sheet to revise and self-test.
Monash Semester 2 final assessment period, 2–18 November 2026 (check your personal exam timetable).

# BFF2701 Equity Markets · Self-test Drills

FIVE WORKED PATHS · JUDGEMENT CARDS · TRAPS · EXAM-MORNING PLAN

Full guide + ask Sia about BFF2701

SIDE 2 / 2 · SELF-TEST DRILLS

COVER THE ANSWER · choose → substitute → compute → reconcile → interpret

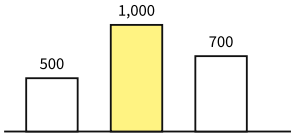
V2 · 2026-10-25

## 15 · Worked 1: call auction

C2 WORKED EXAMPLE

**Prompt.** Cumulative buys at $10.00, $10.10, $10.20 are 1,600, 1,200, 700 shares; cumulative sells are 500, 1,000, 1,500. Find executable volume and clearing price.

| P | CUM BUY | CUM SELL | MIN(B,S) | B−S |
|---|---|---|---|---|
| $10.00 | 1,600 | 500 | 500 | +1,100 |
| $10.10 | 1,200 | 1,000 | 1,000 | +200 |
| $10.20 | 700 | 1,500 | 700 | −800 |




Maximum matched quantity selects $10.10; 200 eligible buy shares remain unmatched.

**ANSWER PATH**

```
500, 1,000, 700 → max = 1,000 at
$10.10 → imbalance = 1,200 - 1,000 =
200 buy shares
```

Within eligible prices, better prices execute first and time priority ranks equal-price orders. Do not jump to a reference price before testing volume and any stated tie-break.

## 16 · If you see order wording...

C2 FAQ + STUDY

| IF THE PROMPT SAYS... | DO THIS |
|---|---|
| "Immediate execution" | Discuss market order: high certainty, price risk, depth walk. |
| "No worse than $x" | Limit order: price protection, queue/non-fill risk. |
| "Earlier at same price" | Time priority only after price equality. |
| "Opening/closing batch" | Cumulative B/S grid; min at each candidate. |
| "Large hidden interest" | Lower display/impact versus uncertain match and weaker transparency. |

## 16b · Structure drill deck

C2 OVERVIEW + FAQ

**SAY THE TRADE-OFF ALOUD**

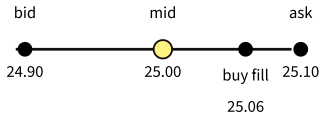
| OBSERVATION | FULL JUDGEMENT |
|---|---|
| Orders cross together at one price | Call auction concentrates interest but does not provide continuous immediacy. |
| Orders match on arrival | Continuous trading gives immediacy; large orders may walk depth. |

**PRIORITY SPEED CHECK**

## 17 · Worked 2: spreads

C4 WORKED EXAMPLE

**Prompt.** Bid $24.90, ask $25.10. Buy 800 shares at $25.06. Find midpoint, quoted and relative spread, effective spread and one-way midpoint shortfall.




Locate the fill relative to midpoint before choosing the buyer or seller sign.

```
m = (24.90 + 25.10)/2 = $25.00
Quoted = 25.10 - 24.90 = $0.20/share
Relative = 0.20/25.00 = 0.008 =
0.80%
Effective = 2(25.06 - 25.00) = $0.12
= 0.48%
One-way shortfall = 0.06 × 800 = $48
```

**Interpretation.** The effective spread is below the quoted spread because the fill improved on the displayed ask by $0.04 per share. The $48 shortfall is one-way; do not double it.

## 18 · Cost ledger traps

C4 FAQ + STUDY

| CLASSIC ERROR | CORRECTION |
|---|---|
| Commission = total cost | Add spread, impact, delay and missed quantity. |
| Compare cents with % | Convert to compatible units first. |
| Use current midpoint after trade | Use the prevailing benchmark specified. |
| Narrow spread = liquid in all ways | Also test depth, speed and recovery. |
| Beat ask = no cost | Compare with midpoint and add other frictions. |

**SELF-CHECK** *Every execution answer names trade side, benchmark time, per-share versus total units, and one consistent sign convention.*

## 18b · Liquidity diagnosis drill

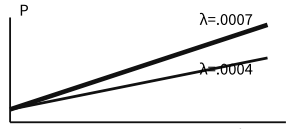
C4 MAP + STUDY

| EVIDENCE IN THE STEM | DIMENSION + RESPONSE |
|---|---|
| Bid and ask move closer | **Tightness improves.** Immediate small-trade displayed cost falls; depth is still unknown. |
| More shares rest near best prices | **Depth improves.** A larger order may move through fewer levels; speed and resilience still need evidence. |
| Order completes sooner at comparable cost | **Immediacy improves.** Check whether urgency merely bought worse impact. |
| Book replenishes quickly after a sweep | **Resilience improves.** Compare spread, depth and midpoint recovery over time. |

## 19 · Worked 3: Kyle λ

C6 WORKED EXAMPLE

**Prompt.** $P = P_0 + \lambda Q$; $P_0$ = $18.00; Q = +7,500 shares. Compare λ = $0.0004 and $0.0007 per share.



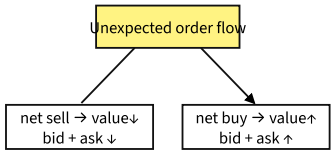

For the same +7,500 shares, the higher slope produces more price impact.

```
Impact₁ = 0.0004 × 7,500 = $3.00
P₁ = 18.00 + 3.00 = $21.00
Impact₂ = 0.0007 × 7,500 = $5.25
P₂ = 18.00 + 5.25 = $23.25
Extra impact = 5.25 - 3.00 = $2.25 =
75% of $3.00
```

**Interpretation.** Higher λ means greater price sensitivity and lower depth for the same order flow—not automatically better forecasting by the buyer. Carry λ's $/share units; verify that positive buying raises price.

## 20 · Information judgement card

C6 FAQ + STUDY




Move both quotes around the revised value estimate while retaining compensation for risk.

| IF YOU SEE... | DO THIS |
|---|---|
| Persistent quote shift after repeated buys | Information is plausible; do not claim proof from one trade. |
| Dealer short inventory; quotes rise | Inventory control may attract sellers. |
| Single buy | Trader type is hidden; noise and information are mixed. |
| Wider spread around news | Link to higher adverse-selection/inventory compensation. |

## 20b · Quote clinic

C5–C6 STUDY

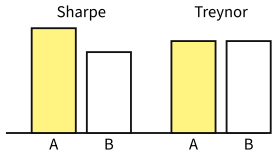
| CHANNEL | MECHANISM | EVIDENCE THAT HELPS SEPARATE IT |
|---|---|---|
| Order processing | Baseline compensation for standing ready and handling trades | Costs that remain without directional information or inventory pressure |

## 21 · Worked 4: Sharpe vs Treynor

C7 WORKED EXAMPLE

**Prompt.** A: return 11%, σ 10%, β 0.8. B: return 13%, σ 16%, β 1.0. Rf = 3%. Compute and explain rankings.

| | EXCESS | SHARPE | TREYNOR |
|---|---|---|---|
| A | 11−3 = 8% | 8/10 = **0.80** | 8/0.8 = **10%** |
| B | 13−3 = 10% | 10/16 = **0.625** | 10/1.0 = **10%** |

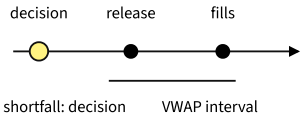



Sharpe ranks A above B; Treynor ties them because the denominators answer different risk questions.

Ranking disagreement is not an arithmetic failure. Sharpe uses total portfolio risk; Treynor uses systematic risk and is suitable when idiosyncratic risk is already diversified. State horizon and keep returns, Rf and volatility aligned.

## 22 · Execution benchmark card

C7 FAQ + STUDY




VWAP can look favourable while implementation shortfall is poor after pre-trade movement.

| IF RESPONSIBILITY IS... | CHOOSE | STATE |
|---|---|---|
| Fill versus market trading in interval | VWAP | Buyer below / seller above is favourable |
| Whole investment decision | Implementation shortfall | Decision price, side, sign, unfilled shares + fees |

VWAP weights market prices by market volume; it is not a simple mean. Implementation shortfall's controlling reconciliation is paper outcome at the decision price minus actual outcome. Component labels—delay, impact, fees, missed quantity—must sum to that total.

## 22b · Performance traps

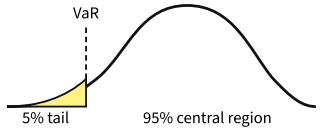
C7 FAQ + BODY

| TEMPTING CONCLUSION | WHAT MUST BE ADDED |
|---|---|
| Highest raw return = best | Match return to total risk, beta or required return. |
| Positive α proves skill | Model, period, costs and uncertainty can change α. |

## 23 · Worked 5: parametric VaR

C8 WORKED EXAMPLE

**Prompt.** Portfolio value $2,000,000; daily σ = 1.4%; one-tailed 95% z = 1.645. Find one-day and ten-day VaR using square-root-of-time.




VaR marks a threshold; it does not cap or describe losses beyond the line.

```
Daily $ volatility = 2,000,000 ×
0.014 = $28,000
1-day VaR = 1.645 × 28,000 = $46,060
√10 ≈ 3.1623
10-day VaR = 46,060 × √10 = $145,655
(recomputed from stated inputs)
```

**Interpretation.** Under the model, loss exceeds about $46,060 on 5% of one-day periods and about $145,655 on 5% of ten-day periods. The ten-day figure assumes stable independent returns; stress conditions can break scaling.

## 24 · Risk language traps

C8 FAQ + STUDY

| WRONG SHORTCUT | CORRECT RESPONSE |
|---|---|
| "VaR is maximum loss" | Threshold only; tail severity is unmeasured. |
| "10-day = 10 × daily" | Conventional scaling is √10 under restrictive assumptions. |
| "Implied vol is future realised vol" | Option-price information extracted through a model. |
| "Past σ is objective" | Depends on return frequency and sample window. |
| "Higher confidence is safer" | It changes the reported quantile, not the underlying position. |

**VAR AUDIT** *Attach currency, confidence, horizon and method; keep % as decimals; round only at the end; reverse-check VaR ÷ z against dollar volatility.*

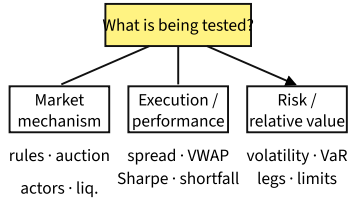
## 27 · Exam-morning plan

COURSE STRATEGY + BRIEF

1. **Check the LMS instructions** and personal timetable; the held materials do not confirm final conditions.
2. Recite five boundaries: investment/trading; primary/secondary; market/limit; quoted/effective; fundamental/transitory.
3. Rewrite from memory: min(B,S); spread set; $P=P_0+\lambda Q$; Sharpe/Treynor/Jensen; VWAP; VaR.
4. Run one unit check: cents/share ≠ percentage ≠ total dollars; λ is $/share; VaR carries currency + confidence + horizon.

## 25 · Method chooser

ALL CHAPTERS · FAQ

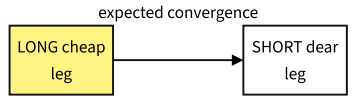



Name the decision first; a familiar number does not choose its own formula.

| IF YOU SEE X... | DO Y |
|---|---|
| New claim + issuer cash | Primary; funding + function. |
| Ranked orders | Sort bids/asks; price then time. |
| Cumulative buy/sell | min(B,S) at each price. |
| Bid, ask, trade | Midpoint → spreads → interpret. |
| Before, immediate, later | Permanent + temporary; reconcile. |
| $P_0$, λ, Q | $P=P_0+\lambda Q$; units + direction. |
| Return + σ | Sharpe; total-risk use. |
| Return + β | Treynor ratio or Jensen residual. |
| Decision price + fills | Shortfall; one sign convention. |
| Value, σ, z, horizon | VaR; currency + confidence + time + limit. |

## 26 · Arbitrage stress card

C8 OVERVIEW + FAQ




A hedge reduces an exposure; it does not remove funding, basis, execution or convergence risk.

**Complete recommendation:** signal/mispricing → both position legs → why exposures offset → entry trigger → convergence event → exit/stop → borrowing cost + short availability + funding horizon + model and execution failure. Classic arbitrage needs identical cash flows; related historical prices create a conditional trade.

## 26b · Foundations + roles recall

C1 + C3 FAQ

| PROMPT | REQUIRED CHAIN |
|---|---|
| Transaction | New/existing claim → cash recipient → financing or liquidity. |
| Intermediary | Client instruction/own capital → broker/dealer → risk bearer. |
| Post-trade | Match → clearing obligations → settlement of cash + securities. |

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Check your exam instructions on the LMS for what you may bring; use this sheet to revise and self-test.

Monash Semester 2 final assessment period, 2–18 November 2026 (check your personal exam timetable).