Financial Markets & Institutions

Introduction

This course is an introduction to the theory and principles of international financial markets and institutions. It covers basic theory and operation of financial systems from an economist’s viewpoint. A practical approach is adopted in this course through the use of case studies and real life examples.

Aims

- To provide students with an introduction to the theory and practice of financial markets and institutions.
- To help students to gain a thorough understanding of the workings of financial markets and of financial instruments.
- To introduce the students to the management of financial markets and institutions in an international context.

Keyword Syllabus

Topic 1: Introduction to the Financial System
Assets and liabilities, portfolio, financial instruments, stocks and flows, lending, borrowing, and wealth

Time value of money, present value, future value, annuities, perpetuities, cash flow, net present value, IRR

Topic 3: Risk and Returns – Portfolio Theory and Asset Pricing Models
Risk, expected return, system risk, specific risk, portfolio, capital market line, security market line, beta, arbitrage pricing theory, Fama-French Three-factor model

Topic 4: Banking and the Money Markets
Deposit-taking institutions, banks, structure of Central Banks, monetary policy, insurance companies, pension funds, unit trusts, investment trusts

Topic 5: Securities Markets
Discount market, ‘parallel’ markets, capital markets, stock markets, bonds, equities, hedge funds, private equity, financial crisis

Topic 6: Interest Rates and Foreign Exchange Markets
Loanable funds theory for real interest rates, liquidity preference theory of interest rates, structure of interest rates, significance of term structure theory, interest rate parity, exchange rate risk, derivatives markets and speculations

Topic 7: Financial Market Management and Regulation
**Topic 8: International Financial Markets**

The world capital market, the New Tiger Economics, Trends in the global financial markets

**Teaching Method**

The course will have 12 lectures and 8 seminars, with each teaching session lasting 1¼ hours. Cases and examples taken from real-world situations will be used for analysis. Students will be divided into small groups at the beginning of the course to facilitate case discussions. Group discussion materials (e.g., cases) will be distributed before each session. Students are expected to read the case before each class, and to actively participate in the group discussions.

**Assessment**

1. Coursework 45%
2. Examination 45%
3. Participation 10%

**Reading**

*Essential:*


*Supplementary:*

