

# Hong Kong University of Science & Technology

## Financial Markets (FINA232)

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Consultation hours: by appointment

Session 1: Tuesdays & Thursdays 9:00 – 10:20am, Room 2503

### **COURSE DESCRIPTION**

The core function of financial markets is to channel funds from savers/lenders to borrowers/producers who have the productive opportunities. This course will study the institutions that carry out this function. We will also study the principles behind the institutional arrangement. After completing the course, students should have the basic understanding of the interest rate, yield curve, security markets, central banking and commercial banking. On top of that, students should be able to analyze the institutional arrangements of financial markets using theoretical concepts such as asymmetric information, adverse selection and moral hazard.

### **PREREQUISITES**

The prerequisite for this course is the FINA 111 or equivalent.

### **REQUIRED READING MATERIALS**

#### **1. Textbook**

Frederic S. Mishkin & Stanley G. Eakins, **Financial Markets & Institutions** (5th edition), Pearson; a copy will be put in the library reserve.

#### **2. Supplementary Materials**

Supplementary materials will be available in library reserve.

### **Evaluation**

The course evaluation is as follows:

Assignments (WSC)	20%
Midterm exam	30%
Final exam	50%

### **Assignments**

Most of the assignments will be the end-of-chapter exercises of the textbook. There will be 2-3 assignments.

### **Examinations**

There will be a mid-term and final examination. They will comprise MC, short questions and long questions. Short questions test simple calculations and concepts. Long questions require analysis.

## **COURSE OUTLINE**

- Week 1**      **Introduction**  
Reading: M&E Chapter 1, 2; supplementary materials
- Week 2**      **Interest rate**  
Reading: M&E Chapter 3,
- Week 3**      **Economic analysis of interest rate**  
Reading: M&E Chapter 4,
- Week 4**      **Duration & Term structure**  
Reading: M&E Chapter 3, 5,
- Week 5**      **Central Banking**  
Reading: M&E Chapter 7,
- Week 6**      **Monetary Policy**  
Reading M&E Chapter 8; supplementary materials
- Week 7**      **Mid-term**
- Week 8**      **Theory of Financial Markets**  
Reading: M&E Chapter 15
- Week 9**      **Commercial Banking**  
Reading: M&E Chapter 17,
- Week 10**     **Bank Regulation**  
Reading: M&E Chapter 20, supplementary materials
- Week 11**     **Money Market**  
Reading: M&E Chapter 9
- Week 12**     **Capital Market**  
Reading: M&E Chapter 8,10,11
- Week 13**     **Capital Market**  
Reading: M&E Chapter 8,10,11
- Week 14**     **Foreign Exchange Market**  
Reading: M&E Chapter 13.