

Hong Kong University of Science & Technology

Introduction to Financial Markets (FINA132)

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Consultation hours: by appointment

Lecture hours: Tuesdays & Thursdays 12:00 – 13:20pm, LTC

COURSE DESCRIPTION

This course will introduce the basic concepts such as present values, interest rates of financial markets. Since 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 time value of money, interest rate, yield curve, security markets, central banking and commercial banking.

PREREQUISITES

No prerequisite.

REQUIRED READING MATERIALS

Textbook

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

Evaluation

The course evaluation is as follows:

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| Assignments | 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 – Time value of money, DCF technique.**
Supplementary notes
- Week 2** **Introduction to portfolio theory: Risk and Return**
Supplementary notes
- Week 3** **Financial Market; Bond market**
Reading: M&E Chapter 1, 10
- Week 4** **Stock market**
Reading: M&E Chapter 11
- Week 5** **Money market**
Reading: M&E Chapter 9
- Week 6** **Interest rate**
Reading M&E Chapter 3; supplementary materials
- Week 7** **Mid-term**
- Week 8** **Economic analysis of interest rate**
Reading: M&E Chapter 4
- Week 9** **Term structure of interest rate**
Reading: M&E Chapter 3,5
- Week 10** **Central Banking**
Reading: M&E Chapter 7, supplementary materials
- Week 11** **Monetary Policy**
Reading: M&E Chapter 8
- Week 12** **Commercial Banking**
Reading: M&E Chapter 17
- Week 13** **Bank Regulation**
Reading: M&E Chapter 20
- Week 14** **Option**
Supplementary notes.