

Hong Kong University of Science & Technology

Financial Markets & Institutions (FINA 232)

Instructor: Veronique Lafon-Vinai, Adjunct Associate Professor

Consultation hours: by appointment only

Session 1: Tuesdays and Thursdays 1:30 pm – 2:50 pm, Room 2405

Session 2: Tuesdays and Thursdays 12:00 to 1:20 pm, Room 2405

COURSE DESCRIPTION

The course will cover the organization and functions of money and capital markets; the various instruments traded therein; financial institutions; and the markets for various securities, such as government and corporate bonds and mortgage securities.

It does **NOT** cover the equity markets, asset pricing and quantitative theories.

There is no denying the vital role that financial markets, and the financial instruments which are traded in those markets, play in the economy, both domestically and globally. We will focus on understanding **how** these markets are organized and **why; who** are the players, **what role(s)** they play and **what motivates** them; what **instruments** are used and **how**; and finally sum it up trying to ascertain **the trends** that are emerging which will shape the financial world of tomorrow.

In the current context of severe financial crisis, we will spend time in class discussing current events. Special attention will be given to the Asian markets, through mini case studies and market news.

The goal is to provide the students with a sound base of **practical** information relating to capital markets and the financial institutions active in them.

The approach will be very practical, drawn from real life experience as well as exposure to market practice. **Students are expected to participate very actively in the course.**

Students who dislike participation and debate are strongly advised not to take this elective.

PREREQUISITES

The prerequisite for this course is FINA 111 or equivalent.

COURSE LEARNING OBJECTIVES

It is expected that after completion of the course, the students will:

- **Develop effective communication in oral and written English through presentations ; in particular, through the group presentation as well as market news, students will deliver professional quality group presentations in English and will communicate ideas persuasively to inform and convince**

- others; the use of video recording in lectures will provide students with a tool for self development
- Develop creative thinking through market news, case studies and group presentations that allow them to analyze core issues in today's markets and approach financial system issues from alternative perspectives
 - Get a broad understanding of the interdependence and distinctive elements of finance and its role in the economy
 - Broaden and deepen their understanding of finance, in particular students should be able to explain the function and organization of financial markets and institutions and the interactions between them; to summarize the facts and lessons drawn from the history of financial markets and in particular to be able to explain in simple terms the causes of the existing crisis.
 - Become more effective team members and leaders, through active involvement in group projects including presentations, market news and case studies. In particular, students will demonstrate an understanding of team dynamics and the various roles played within the team; contribute to the successful and timely completion of group projects in line with their roles in the team; collaborate positively by actively seeking and engaging in discussion of the views of others while showing sensitivity to opposing views.
 - Become more effective in multi-cultural settings by forming groups including exchange students
 - Understand ethical and professional responsibility of finance professionals through the discussion of current social responsibility and ethical issues in finance during class

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

- Selected reading materials will be posted on WebCT and/or distributed in class
- *Students are encouraged to consult the following books, available from the University library:*
 - o **Asia's Credit Markets** by Florian Schmidt
 - o **The Money Markets Handbook** by Moorad Choudhry
 - o **Fixed Income Markets and their Derivatives** by Suresh Sundaresan
 - o **How to Understand the Financial Pages – a Guide to Money & Jargon** by Alexander Davidson

I **strongly** recommend that students familiarize themselves further with the financial markets by reading such market oriented newspapers as the Financial Times and the Asian Wall Street Journal; magazines such as Business Week, The Economist, Forbes and Fortune; watching CNBC and/or CNN; and exploring the Internet for subjects discussed in class. *I would expect students specializing in finance to read at least one business paper daily (online or paper) and to keep abreast of financial news.*

EVALUATION

The course evaluation is as follows:

Participation	15%
Assignments & Homework	15%
Group Presentations	25%
3 quizzes	45%

Assignments, Homework, Group Presentations

1. Students will be formed into groups of maximum 6 students (maximum 10 groups for each session). Groups are required to include students from the same session. ***I strongly encourage groups to be formed on a multi-cultural basis*** to broaden the overall students experience and enhance your English oral and written skills. How you run the groups is your concern; it is up to you to decide the group composition and to make sure each group member does his/her fair share of the work. I will not be involved in intra-group disputes.
2. Each group will be given assignments/homework to complement the course. These have to be prepared and presented ***on time***. There may be 2-3 such assignments/homework, generally 1 market news session and 1-2 case studies. Grading of these assignments will take into account not only the content but also the presentation itself, including style, spelling, grammar, as well as oral skills, and the way you handle questions. Most importantly, ***for the market news, an important part of the grade will cover your ability to engage the class in active discussion***. For each topic, students who are not presenting are expected to prepare questions for the presenting group and participate actively in the discussion. Due note will be taken of students involvement.
3. For each group, a subject will be given for main group presentation. Each group will be expected to prepare a presentation to last no more than 30 minutes, followed by a 10 minutes Q&A. The presentations will take place on assigned days of the course. All students will be required to attend the presentations and participate in the Q&A. Non-presenting students members active involvement in the Q&A is required. Just as in a business environment, the time constraint will be strictly enforced. All members of the group will be required to be involved in the presentation, and each should have the opportunity to speak for a few minutes. Preliminary copies of the presentation (slides) should be sent to me by email for comment one week before the presentations. Just as in business life, my grading will take into account not only the content but also the presentation itself, including style, spelling, grammar, as well as oral skills, and the way you handle the Q&A session.

Quizzes/Examinations

There will be three quizzes and NO final exam. The first two quizzes will be in class during the term; the final quiz date will be determined by the school. Most questions will be MCQ or True/False questions. There may be short and long questions as well. The

quizzes will be non-cumulative but the final exam may cover the whole program. Each quiz will account for 15% of the grade.

INDICATIVE COURSE OUTLINE

We will aim to cover the basics of the following topics:

Week 1 Introduction; financial system

Reading: M&E Chapter 1& 2

Week 2 Types of financial institutions; financial intermediation

Reading: M&E Chapter 2 & 15

Week 3 Commercial Banking

Reading: M&E Chapter 17 & 18, 24

Week 4 Investment Banking

Reading: M&E Chapter 16, 19, 23

Week 5 and 6 Other FIs: the buy-side

Reading: M&E Chapter 21 & 22

Week 7 Banking regulation; Basel I and II

Reading M&E Chapter 20

Week 9 Central Banking & Monetary Policy

Reading: M&E Chapter 7 & 8

Week 10 FX and Money markets

Reading: M&E Chapter 13 & 14, Chapter 9

Week 11 Credit and Debt Markets (syndicated loans)

Reading: M&E Chapter 10

Week 12 DCM Credit and Debt Markets (DCM)

Reading: M&E Chapter 10

Week 13 Credit Markets continued/Securitization

Reading: M&E Chapter 12

This outline is given as a reference only. We will aim to actively discuss domestic Hong Kong markets as well as selected Asian markets during the course.

If time allows, we will endeavor to cover other subjects which might be of particular interest to students or the result of recent events. Reciprocally, we may not be able to cover all the topics.

IMPORTANT NOTICE: THIS COURSE DOES NOT COVER EQUITY MARKETS OR PRICING THEORIES. *Students more interested in quantitative finance are advised this course does not include quantitative teaching which is covered in other core and elective courses.*

Rules of the Game

These are based on common-sense, real business life practice that you should be familiar with. You should behave as you would in a business environment, showing appropriate behavior and respect for classmates, staff and faculty. **Cheating, dishonesty and plagiarism will not be tolerated at any time and may result in strict sanctions.**

1. Attendance: Just as you would for business meetings, I expect each student to be on time for classes. Late arrival/early departure is disruptive and disrespectful. Repeated late arrival will result in lower rating.

2. Participation: Active participation is required, and will be duly noted. You are very welcome to make suggestions, comments and generally contributions to the course. I also expect each student to behave as you would in a business environment, showing respect for each other and generally not disrupting the class with inappropriate behavior.
3. Mobile phones and other beeping devices need to be turned off or put on silent mode. Portable computers are allowed so long as they do not lead to inappropriate behaviour and disturbance.
4. Video recording of lectures may be arranged by the School and the Lecturer. Any other recording (audio or video) is strictly prohibited. Lectures are the copyright property of the Lecturer. Any recording can only be reproduced with the express consent of the Lecturer.
4. Exams and Quizzes: There will be no make-up exams. Unexcused absence will result in *zero* grading for that test. Each exam or quiz will be closed-book.
5. Course Materials, Copyright, Questions and contact with instructor: The course materials will be posted on the University's LMES (FINA232), please check the website on a regular basis for new postings. The Lecture notes are the copyright property of the Lecturer and are provided for the sole private use of the students. They may not be reproduced or disseminated without the express consent of the Lecturer. For administrative queries, please contact the Teaching Assistant or the staff at the Department of Finance Office, who will be able to assist you. For any lecture related queries, feel free to contact me directly, preferably by email.

Contact Details for Instructor:

E-Mail: vlafon@ust.hk

Email is the preferred medium of contact. Students who wish to see me should make an appointment by email.

Room 2445 ext 7679 (please do NOT leave voice mail)

Teaching Assistant: Ms. CHEN Yun-Ling (ylchen@ust.hk)

Personal Telephone VLV (for emergency ONLY): 9042-6753

Mail: address to Department of Finance at HKUST, clearly indicating course reference and instructor's name.