

Hong Kong University of Science & Technology

Financial Markets (FINA232)

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Consultation hours: by appointment

Session 1: Tuesdays & Thursdays 15:00 – 16:20am, room 4619

Session 2: Tuesdays & Thursdays 13:30 - 14:50pm, Room 4619

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.

READING MATERIALS

1. Reference/Textbook

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

2. Supplementary Materials

Supplementary materials will also be provided.

Evaluation

The course evaluation is as follows:

Assignments	20%
Midterm exam	25%
Final exam	55%

Assignments

Most of the assignments will be the end-of-chapter exercises of the textbook. There will be 2 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; Inflation Targeting**
Reading M&E Chapter 8; supplementary materials
- Week 7** **Mid-term**
- Week 8** **Theory of Financial Markets**
Reading: Supplementary notes; 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** **Basics of risk management of financial institution**
Reading: M&E Chapter 24
- Week 12** **Special topic; Payment system**
Supplementary notes
- Week 13** **Special topic; Bank capital**
Supplementary notes
- Week 14** **Basel Accord**
Supplementary materials