

BF214 FINANCIAL MARKETS AND INSTITUTIONS

Course Description and Scope

Objectives of the course are mainly to prepare students with a good understanding on theoretical foundation of financial market and institutions and keeping students updated on the latest discourse on unresolved practical issues and policies in the new international financial environment. In order to yield optimal returns from attending the course, students are advised keep in touch with current affairs and development through wider reading than just the recommended texts. The course should help to prepare students with an overview of the global financial perspective and students would find it useful when joining related industries in the international financial community.

The scope of the course comprises the diversity of financial instruments, institutions, and latest developmental issues in the financial arena - regional as well as international. The emphasis of the course is, and accordingly reflected in the course assessment, on the theoretical understanding of key concepts and an appreciation of the practical relevance. Practical issues and policies are usually not found in most textbooks whose coverage tends to lag behind real events and lack specific focus.

Hence descriptive elements will be covered primarily by the prescribed readings that will be left to the initiative of each student. Tutorials are designed to facilitate understanding and discussion of current issues relating to the financial sector instead of merely answering textbook style questions. In particular, a greater emphasis is being put on tutorial participation in order to encourage students to articulate their own views and observations through class exchanges, an area still weak that needs further encouragement. Students would find the course challenging and rewarding with commensurate efforts.

Proposed Lecture Schedules

Week No. (Beginning)	Topics	Readings
1 (Jul 9)	<p>1 Introduction</p> <p>2 Concept of Financial Assets and Its Relevance to Innovation</p> <p>3 Commercial and Investment Banks</p> <p style="margin-left: 20px;">3.1 Design of financial system and existence of banks</p> <p style="margin-left: 20px;">3.2 Not all banks are the same</p> <p style="margin-left: 20px;">3.3 Evolution of the banking industry and recent developments</p> <p>Instructor: PC</p>	<p>A detailed listing of references for lectures 1 – 13 will be provided together with lecture handouts and supplementary reading materials.</p> <p>Case studies:</p> <ul style="list-style-type: none"> <input type="checkbox"/> Specialist (US), Universal (Germany) and Keiretsu (Japanese) banks <input type="checkbox"/> Deregulation of deposit rates (Hong Kong) <input type="checkbox"/> EMU and its implications on the banking industry
2 (Jul 16)	<p>4 Equity Markets</p> <p style="margin-left: 20px;">4.1 Market instruments and architecture</p> <p style="margin-left: 20px;">4.2 Analysis of market performance: bull and bear markets, and bubble and burst phenomenon</p> <p style="margin-left: 20px;">4.3 Information content of market indices</p> <p style="margin-left: 20px;">4.4 Does every country require its own stock exchange?</p>	<p>Case studies:</p> <ul style="list-style-type: none"> <input type="checkbox"/> Floor versus screen trading: Evidence from the German stock market <input type="checkbox"/> Market microstructure and trader anonymity: The US experience <input type="checkbox"/> The NASDAQ performance in the 2000s

Week No. (Beginning)	Topics	Readings
	Instructor: PC	
3 (Jul 23)	<p>5 Foreign Exchange Markets</p> <p>5.1 Market practices and functions</p> <p>5.2 Introduction to fin. engineering: Simulation of financial markets</p> <p>5.3 Common misunderstanding of PPP, Fisher Effect and Interest Rate Parity</p> <p>Instructor: PC</p>	<p>Case studies:</p> <ul style="list-style-type: none"> <input type="checkbox"/> The Singapore dollar experience in the past 15 years <input type="checkbox"/> Internationalisation vs. Non-internationalisation of dollars: HKD vs. SGD
4 (Jul 30)	<p>6 Money Markets</p> <p>6.1 Market practices and functions</p> <p>6.2 Characteristics and applications of, and interest differential between instruments</p> <p>6.3 Speculation strategies</p> <p>6.4 Euro markets and ACU in Singapore</p> <p>7 Mortgage Markets and Securitization</p> <p>7.1 Securitization: Mortgage-backed and asset-backed securities</p> <p>7.2 Contraction and extension risks; credit risk and enhancement</p> <p>7.3 Advanced techniques in securitization</p> <p>7.4 Asset securitization as a financial innovation</p> <p>Instructor: PC</p>	<p>Case studies:</p> <ul style="list-style-type: none"> <input type="checkbox"/> So you thought the Fed set the interest rates <input type="checkbox"/> Why US is well ahead of the rest of the world in securitization
5 (Aug 6)	<p>8 Derivatives Markets</p> <p>8.1 Creative instruments</p> <p>8.2 Concept of unbundling composite risks of financial assets: Credit derivatives and applications</p> <p>9 Relationship between financial markets</p> <p>9.1 International financial contagion</p> <p>9.2 The Double Play: Simultaneous speculation on currency and equity markets</p> <p>9.3 Interactions between banking, equity and money markets</p> <p>Instructor: PC</p>	<p>Case studies:</p> <ul style="list-style-type: none"> <input type="checkbox"/> Intranight trading behaviour: The SFE experience <input type="checkbox"/> Crises in the 90s: "Tequila", Asian, Russian and Brazilian <input type="checkbox"/> Double Play: The Hong Kong Experience in 1998
6 (Aug 13)	<p>10 Other Financial Institutions</p> <p>10.1 Insurance companies, S & L associations and others</p> <p>11 Special Issues</p> <p>11.1 Bancassurance</p> <p>11.2 Hedge funds</p> <p>11.3 Money laundering</p> <p>12 Revision</p>	<p>Case studies:</p> <ul style="list-style-type: none"> <input type="checkbox"/> Hedge fund: LTCM <input type="checkbox"/> Money laundering: Colombian black market peso exchange

Week No. (Beginning)	Topics	Readings
	Instructor: PC	
7 (Aug 20)	<p>7 Understanding Debt Markets</p> <p>7.1 Organisation and structure of debt markets</p> <p>7.2 Government and non-government debts</p> <p>7.3 Bonds: Valuation, yield and ratings</p> <p>7.4 International bond markets Integration</p> <p>Instructor: TKG</p>	<p>Case Study:</p> <ul style="list-style-type: none"> ❑ The Asian Policy Forum (APF) report: Policy recommendations on diversified corporate financing and developing corporate bond markets
8 (Aug 27)	<p>8 The Financial Institutions Industry</p> <p>8.1 Theory of Financial Structure</p> <p>8.2 Banking Regulations and Crisis</p> <p>8.3 The 1988 Basle Capital Accord</p> <p>8.4 The 2004 Basle Capital Accord</p> <p>Instructor: TKG</p>	<p>Case Studies:</p> <ul style="list-style-type: none"> ❑ A vertical B2B financial hub: Are banks redundant? ❑ International standards and regulations on global banking industry: Emerging Markets' Perspective
9 (Sep 3)	<i>Recess</i>	
10 (Sep 10)	<p>9 Liberalisation of Financial Markets and Institutions</p> <p>9.1 Strategic sequencing of financial development</p> <p>9.2 Financial liberalisation: The case of Singapore</p> <p>9.3 Causes of the Asian financial turmoil</p> <p>Instructor: TKG</p>	<p>Case Studies:</p> <ul style="list-style-type: none"> ❑ Financial Liberalisation: Big bang approach versus gradual deregulation. ❑ Financial development and banking sector reform in ASEAN-10
11 (Sep 17)	<p>10 Central Banks and Regulatory Authorities</p> <p>10.1 Structure, functions and independence</p> <p>10.2 Stabilization policies and market intervention</p> <p>10.3 Post-crisis central banking reform</p> <p>10.4 Post-crisis financial system reform</p> <p>Instructor: TKG</p>	<p>Case Study:</p> <ul style="list-style-type: none"> ❑ The Asian Policy Forum (APF) Report: Policy recommendations to financial crisis prevention
12 (Sep 24)	<p>11 Global Financial Markets and International Monetary Order</p> <p>11.1 Pros and cons of alternative exchange rate regimes</p> <p>11.2 International trade, global capital mobility and currency values</p>	<p>Case Study:</p> <ul style="list-style-type: none"> ❑ How to deal with currencies volatility and rapid capital flows under increasing globalisation

Week No. (Beginning)	Topics	Readings
	11.3 Emerging tri-polar currency areas: Greenback, Euro and Japanese Yen Instructor: TKG	
13 (Oct 1)	12 Cross-Border Trading Activities, Financial Markets Integration and the International Financial Architecture 12.1 International financial centres and financial innovation 12.2 Global trading system and WTO 12.3 Regional economic integration and financial internationalisation 12.4 Reforming the international financial architecture Instructor: TKG	Case Studies: <input type="checkbox"/> Reforming the international financial architecture: problems and suggestions <input type="checkbox"/> Regional financial arrangement: The ASEAN perspective

Basic Text

SB Santomero and Babbel
Financial Markets, Instruments, and Institutions
Irwin/McGraw Hill, 2nd edition, 2001
(Call No. HG 173.S237)

Other References

FMF Fabozzi, Modigliani and Ferri
Foundations of Financial Markets and Institutions
Prentice Hall, 2nd edition, 1998
(Call No. HG.173.F121)

Method of Instruction

Lectures: 2 hours per week
Tutorials: 2 hours per week

Lectures commence in Week 1 and end in Week 13
Tutorials commence in Week 2 and end in Week 14

Course Assessment

Tutorial Participation	20%
Written Assignment	10%
Final Examination	70%

Total	100%
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