

Course Syllabus

EE 431 Economics of Financial Markets and Institutions

Semester 1/2020 (August 10 – November 28, 2020)

- 1. Number of credits:** 3 credits (3-0-6)
2. Lecture Date and Time: Tuesday and Thursday, 8.00 – 9.30 AM.
3. Class venue: Room 206, Economics Faculty Building

4. Instructor:

Instructor's Name : Asst.Prof. Dr. Sicha Thubdimphun
Office: Room 469
Office hours: by appointment (via email)
Contact Information: sicha@econ.tu.ac.th

5. Course description:

Money and capital markets at the micro level; Financial assets; financial risks and financial risks bearing; Theory of equilibrium pricing of financial assets; the CAPM and APT models; Interest rate structure; bond and equity instruments; Financial derivatives; Asymmetric information in financial market; The study of financial institutions with the emphases on theories regarding the roles and functions of commercial banks; Risk management of financial institutions; Monitoring and controlling of financial institutions; The deposit insurance system and financial institution business from the perspective of industrial economics.

6. Prerequisite: EE311

7. Objective of the course:

- (1) To provide students with understanding of financial asset characteristics; risk, return and liquidity
- (2) To provide students with understanding of debt market and interest rate at microeconomic level.
- (3) To provide students with understanding of decision process for investment in financial assets at microeconomic level, where investors seek to maximize their expected utility under constraint (combination of risk and returns available in the financial market)
- (4) To provide students with understanding of diversification, degree of risk aversion, risk premium, which are important determinants of the equilibrium price of financial assets in the financial market.
- (5) To provide students with how to derive of equilibrium in the financial market
- (6) To provide students with understanding of asymmetric information problem in the financial market and the role of financial intermediaries
- (7) To provide students with understanding of risk management of financial institutions
- (8) To provide students of understanding of agency problem and excessive risk-taking in the financial market and how to mitigate the situation
- (9) To provide students with understanding of bank's liquidity creation, bank's liquidity problem, bank runs and deposit insurance

8. Evaluation

Mid-term exam	30% (Topic 1 – Topic 4)
Final exam	45% (Topic 4 – Topic 8)
Homework	10%
Quiz	15%

Mid-Term Examination: Tuesday, September 29, 2020, 09.00 - 11.00 hrs.

Final Examination: Wednesday, December 9, 2020, 09.00 – 12.00 hrs.

Remarks: In some cases, we may need to change the evaluation method. Please keep updating information on the BE moodle.

9. Teaching Materials and Resources

Required Text:

Frederic Mishkin, The Economics of Money, Banking and Financial Markets 9th Edition (Pearson, 2009)

Peter D Spencer, The Structure and Regulation of Financial Market (Oxford University Press, 2000)

Copeland, Thomas E. and J. Fred Weston, Financial Theory and Corporate Policy, 4th edition, (Addison-Wesley, 2005)

Diamond(2007), Bank and Liquidity Creation: A Simple Exposition of the Diamond-Dybvig Model, Federal Reserve Bank of Richmond Economic Quarterly.

Diamond(1996) Financial Intermediation and Delegated Monitoring: A Simple Example, Federal Reserve Bank of Richmond Economic Quarterly.

Kent Mathews and John Thompson, The Economics of Banking 2nd Edition (John Wiley & Son, 2008)

Remarks : Supplement handouts or reading will be posted on *BE moodle* and *Google Classroom*.

Lecture presentation will be provided by the lecturer.

- The lecture presentation is designed to support learning in the class. Therefore, it is not

10. Expected Learning Outcomes:

1. Morality and Ethics

Applicability	Expected Learning Outcomes
●	1.1 Students demonstrate integrity.
●	1.2 Students prioritize social and public benefits over personal ones.
●	1.3 Students are punctual and comply with the code of conduct of the institution and society at large.
●	1.4 Students are responsible and accountable to society, the nation, and the subject of economics.
○	1.5 Students realize the cultural and environmental value of the sustainable society.

2. Knowledge

Applicability	Expected Learning Outcomes
●	2.1 Students know and understand modern economics principles and theories, and are up to date with new developments.
●	2.2 Students know and understand Thai and global economic structure, and the importance of major international economic events.
○	2.3 Students know and understand instruments of economic analysis.
●	2.4 Students know and understand applied fields in economics, including monetary, public, international, business, natural resource and environmental, industrial, agricultural, cooperative, political, developmental, and entrepreneurial economics as well as agribusiness.
●	2.5 Students are informed about related fields including sociology, business administration, education, law policy, and science.

3. Intellectual Development

Applicability	Expected Learning Outcomes
●	3.1 Students have developed individual critical thinking.
●	3.2 Students are sufficiently trained in research skills.
●	3.3 Students demonstrate an ability to analyze and synthesize data, as well as appropriately integrate economics concepts to understand causes of current economic problems in Thailand. Based on analysis and synthesis, students demonstrate an ability to propose policy guidelines to resolve problems.

4. Interpersonal Skills and Responsibilities

Applicability	Expected Learning Outcomes
●	4.1 Students are responsible for assigned tasks and work in groups effectively.
●	4.2 Students have problem-solving skills.
○	4.3 Students show leadership skills and team spirit.
●	4.4 Students are always improving themselves.
○	4.5 Students have good interpersonal skills, adapting and working under different conditions.

5. Quantitative Analysis, Communication and Information Technology

Applicability	Expected Learning Outcomes
○	5.1 Students select and apply appropriate statistical and mathematical methods for data processing, interpretation, conclusions, and recommendations to resolve problems.
○	5.2 Students communicate effectively and select appropriate presentation methods.
○	5.3 Students use information and communication technologies appropriately to gather data as well as process, interpret, and present results.

11. Lecture/Schedule

Topics	Reading
Part I : Economic Analysis of Asset Prices	
Topic 1. Financial assets and the overview of financial market (1 time)	FM2009
1.1 Money and functions of money	Ch. 1-3
1.2 Money, Wealth and Income	
1.3 Financial Market and Financial Assets	
1.4 Financial Assets Classified by Information Theory	
1.5 Flows of Funds in The Financial Market	
1.6 Structure of Financial Market	
Topic 2. Debt Market and Structure of interest rates (7 times)	FM2009
2.1 Measuring Interest Rates	Ch.4-6
2.2 Nominal Interest Rates and Real Interest Rates	
2.3 The Behavior of Interest Rates	
2.4 Risk and Term Structure of Interest Rates	
Topic 3. Mean-Variance Analysis (3 times)	Copeland2005 Ch.5
3.1 Measuring Risk and Returns for a Single Asset	
3.2. Measuring Portfolio Risk and Returns	
3.3. Efficient Frontier with Two Risky Assets	
3.4. Efficient Frontier with One Risky and One Risk Free Asset	
3.5. Optimal Portfolio Choice N Risky asset	
3.6. Optimal Portfolio Choice N Risky asset and One Risk Free Asset	
Topic 4: Capital asset pricing model (CAPM) and Arbitrage Pricing Theory (APT) (4 times)	Copeland2005 Ch.6
4.1 Capital Asset Pricing Model <ul style="list-style-type: none"> • Portfolio Diversification and Individual Asset Risk • Assumptions • The Efficiency of Market Portfolio • Derivation of CAPM • Properties of CAPM 	
4.2 Arbitrage Pricing Theory <ul style="list-style-type: none"> • Arbitrage Opportunity • Replicating Portfolio • Derivation of Arbitrage Pricing Theory 	

Topics	Reading
Part II : Financial Institution, Financial Market and Asymmetric Information	
Topic 5. Financial institutions (2 times)	FM2009
5.1 Introduction	Ch.9 -11
5.2 Major risks faced by banks	
5.3 Liquidity Management and The Role of Reserve	KM 2008
5.4 Interest Rate Risk Management	Ch.7
5.5 Credit Risk Management	
5.6 Capital Adequacy Management	
Topic 6. Theory of financial intermediation (5 times)	PS2000
6.1 Introduction	Ch.8
6.2 Shortcomings of direct finance	
6.3 How banks help to resolve the problem?	Diamond (1996)
(a) Confidentiality and The Banking Relationship	
(b) Economies of Scale and Role of Diversification in Banking:	
Financial Intermediation as Delegated Monitoring	
Topic 7. Convexity, excessive risk, and bank regulation (5 times)	PS2000
7.1 Decision Under Uncertainty	Ch.9
7.2 Agency Cost of Debt Finance: Conflict between a firm's bondholders and stockholders	KM 2008
7.3 Asset Substitutions Problem	Ch.8
7.4 How to solve asset substitution problem?	
7.5 Adverse Selection and Credit Rationing	
Topic 8. Bank runs, systemic risk and deposit insurance (4 times)	Diamond (2007)
8.1 Introduction	
8.2 Demand for Liquidity	
8.3 Bank Liquidity Creation	
8.4 Bank Runs	
8.5 Suspension of Convertibility and Deposit Insurance	
8.6. Note on the optimal level of liquidity	

12. Important dates:

SEMESTER 2/2019 (August 10 – November 28, 2020)	
Classes Begin	August 10, 2020
Adding and Dropping Courses W/O Record	August 10 – 23, 2020
Payment	August 10 – 24, 2020
H.M. Queen Sirikit The Queen Mother's Birthday*	August 12, 2020
Mid-term Examination Period	September 28 – August 3, 2020
Course Withdrawal with "W" record	October 12 – November 15, 2020
H.M. King Bhumibol Adulyadej The Great Memorial Day*	October 13, 2020
King Chulalongkorn Day*	October 23, 2020
Last Day of Classes	November 28, 2020
Final Examination Period	November 30 – December 16, 2020
H.M.King Bhumibol Adulyadej The Great's Birthday*	December 5, 2020
Substitution for H.M.King Bhumibol Adulyadej The Great's Birthday*	December 7, 2020
Constitution Day*	December 10, 2020

Remark * Holiday, No classes during this period

13. Class Policies:

Any changes to the course outline (if any) **will be announced in the class or uploaded on BE moodle**. It is the responsibility of the students to obtain any information announced in the class. Ignorance of such information due to absence of class is not a valid defense. If a student has any question about the lecture, please do not hesitate to consult the lecturer during office hours. The lecturer would be pleased to assist. Please make an appointment in advance via email. Please allow enough time (at least 2 working days) for the lecturer to confirm the appointment. I will be available for you only if you confirm such an appointment by emailing back.

Attendance is highly encouraged

Proper manner and courtesy are expected

A student may contact me by sending email. On the night before a text/an exam the cut off for any question is 7.00 pm. via email, I can provide only short answer. If you prefer long answer, please come to visit me by making an appointment.

CONTACT INFORMATION

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