



B.E. International Program

Faculty of Economics, Thammasat University



Course Outline

EE 438 Monetary Economics: Selected Topics

(Economics of Financial Markets and Institutions)/

EE 431 Economics of Financial Markets and Institutions

Semester: 2/2011 (January 9 – May 20, 2012)
Instructors: Dr. Benjarong Suwankiri
Naris Sathapholdeja (invited co-lecturer)

Time: Saturdays, 09.00 – 12.00 hrs.
Room: 303, Faculty of Economics

EE 438 Monetary Economics: Selected Topics (Economics of Financial Markets and Institutions)
(Curriculum 2004)

Prerequisite: By lecturer's consent

EE 431 Economics of Financial Markets and Institutions (Curriculum 2009)

Prerequisite: EE311

Course Descriptions (from BE website with own emphases):

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.

Objectives

The objectives for this course are twofold. First, like all Economics of Financial Markets and Institution courses, the course aims to **introduce students to various concepts in financial markets**, especially from the viewpoint of economics. This is done by following through textbooks with concepts and ideas common to economists working in the financial markets and

institutions. The course will **be rigorous**, yet with meaningful understandings of behaviors observed in the financial scenes. Second, unlike any course offered at any institution, this course will familiarize students with **actual practices of (Thai) commercial banks**, the biggest players in Thai financial market by drawing from the lecturers experience in the industry. Thai banking system is unique in many ways and many mainstream economics theories cannot be easily applied. **Students will learn more details of Thai commercial banks, from selected banks' products to their behaviors in the market.** To this end, the course aims to provide students, in addition to various theoretical views aforementioned, a practitioners' know-how that will be useful for Thailand's specificity.

Remarks:

- ◆ Second semester begins Jan. 9, 2012
- ◆ Period of withdrawal without "W" Jan. 9-23, 2012
- ◆ Mid-Term Examination Feb. 27 – March 3, 2012
- ◆ Last day of withdrawal with "W" March 21, 2012
- ◆ Last day of class Apr. 29, 2012
- ◆ Final Examination May 4 - 20, 2012

Exam Dates

Midterm exam: Saturday March 3, 2012 at 9.30 to 12.00

Final exam: Friday May 18, 2012 at 9.00 to 12.00

These exam dates are set by the Faculty of Economics and we have no flexibility in adjustment on individual basis. No make-up exam will be given. Students must check their schedule and plan accordingly.

Teaching and Assessment

Class will be conducted through lecture. Assignments will mostly contain problem sets. We strongly encourage group study, so feel free to consult your fellow classmates on the problem sets. However, **you still need to submit your problem sets individually**. Each assignment must be submitted in hard-copy **precisely one-week** after it was assigned. Class participation (not just attendance) will also count towards your final grade. There will be 2 written examinations for the course. The grade distribution is as follows:

Bank Report	10%
Assignments	20%
Mid-term	30%
Final	40%

Contact Information

The easiest way to get in contact with us if you have any questions is via e-mail. Aj.Benjarong's e-mail address is: bensuwankiri@gmail.com and Aj.Naris' email is: naris.sat@tmbbank.com. **Please begin the subject of your email with "EE431:"**, otherwise your email could easily slip my eyes into the junk mail folder.

Office Hours (Only Benjarong): Saturdays, 13.00 -14.30 (Ask BE Office for location)

Prerequisites and Mathematical Preliminaries

The prerequisite of EE311 Microeconomics Theory is strictly enforced. If you haven't taken EE311, do not join the class. Students should also have **no trouble with basic calculus** (differentiating, maximizing a function with and without constraint, etc.) and **statistics**. Some basic understanding of simple regression (e.g. multivariable OLS) is a plus.

Textbooks and Readings

The following is the *required textbooks*, which should be available in the bookstore:

1. (ME) Mishkin, Frederic, and Stanley G. Eakins, *Financial Markets and Institutions: Global Edition, 7th edition*, Pearson, 2012 (A good introduction to financial world from a more practical point of view. Nonetheless, too easy and simple-minded on many topics) ISBN: 0273754440. You don't need any other fancy things like MyEconLab that comes with the text.
2. (MT) Matthews, Kent, and John Thompson. *The Economics of Banking, 2nd Edition*, Wiley 2008. (A textbook dealing with *microeconomics* of banking. Probably the *only* textbook on this topic for this level.) ISBN: 0470519646

We will try to place both textbooks on reserve in the library for your easy access. If you wonder what are the differences between each edition of the textbooks are, go compare them in the libraries. *Some selected reading will be distributed in class to facilitate further discussions.*

Topics

The following list is a preliminary list of topics for the course. Please note that some adjustments might be made along the way. (B = Benjarong; N = Naris)

1. (B) **Overview of Financial System and Financial Crises (ME Ch. 2, 8)**
 - The importance and risk of financial systems
2. (B) **Interest Rates: Roles, Term Structure, and Risks (ME Ch. 3-5)**
 - Present-value concept
 - Yield Curve
 - Term and Risk structures of interest rates
3. (B) **Financial Markets and Institutions: Existence and Overview (ME Ch. 7, 17; MT Ch. 2)**
 - The need for Financial Intermediation
 - Asymmetric information and financial contracts
4. (B) **Banks: Its Roles and Characteristics (ME Ch. 19; MT Ch. 3-4)**
 - Banks and Financial Intermediation
 - Types, Characteristics and some products of Banks
 - Thai Banking Landscape
5. (B) **Banks: Theory of Its Behavior & Decision (MT Ch. 7-8)**
 - Reserve management
 - Choices between risky and risk-free assets (If time permits, CAPM & APT)
 - Alternative explanation of interest spreads

6. (B) Banks: Theory for Banks as Firms from I-O Perspective (MT Ch. 6)

- Perfect Competition
- Monopoly
- Oligopoly

< Tentative Midterm Cutoff >

7. (B) Banks: Credit Rationing (MT Ch. 8)

- Sticky interest rate and credit restrictions

8. (N) Banks: Efficiency and Competition (MT Ch. 10-11)

- Thai banks' products: more than just loans and deposits
- Interest rates in Thai banking industry
- Measurements of Efficiency and Competitiveness

9. (N) Capital Markets (ME Ch. 12-13)

- Bond & Money Market
- Stock Market

10. (N) Banks: Risk Management (ME Ch. 23; MT Ch. 13)

- Managing income flow & liquidity
- Managing different types of risks: financial derivatives
- Value-At-Risk concept

11. (N) Banks: Domestic and International Regulations (ME Ch. 18; MT Ch. 12)

- BOT's regulation and international standards
- Lessons from Subprime for regulators
- Basel I, II, & III

12. (N) International Financial Markets (ME Ch. 15-16)

- Foreign Exchange
- International Financial System & Institutions

13. (N) Central Banking and Macroeconomics (ME Ch. 9-10; MT Ch. 14)

- Macroeconomic role and goals of Central Bank
- Inflation Targeting and transmission mechanisms of Monetary Policy

Disclaimer:

By registering for this class, you agree to accept all course requirements, deadlines, exam dates, and other procedures outlined in this syllabus, and in class discussions. There will be no discussions, pleas, or arguments about these aspects of the administration of the course under any circumstances.