EE 431: Economics of Financial Markets and Institutions

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Office Hours: By appointment

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.

Course objectives

- Not everyone wants to be a theoretical economists!

- To understand the functions of money and the financial system.
- To introduce various components of the financial system.
- To get some ideas of financial development and banking.
- To practice research and presentation skills.
- To apply theoretical ideas with the real world.

Introduction

- We use ***money*** in our daily life.
- Why do we use money?
  - Without money, we would go back to barter trade, which is very inefficient.
  - We may use money to store our wealth as well.
- We will see that money affects our lives in various aspects.

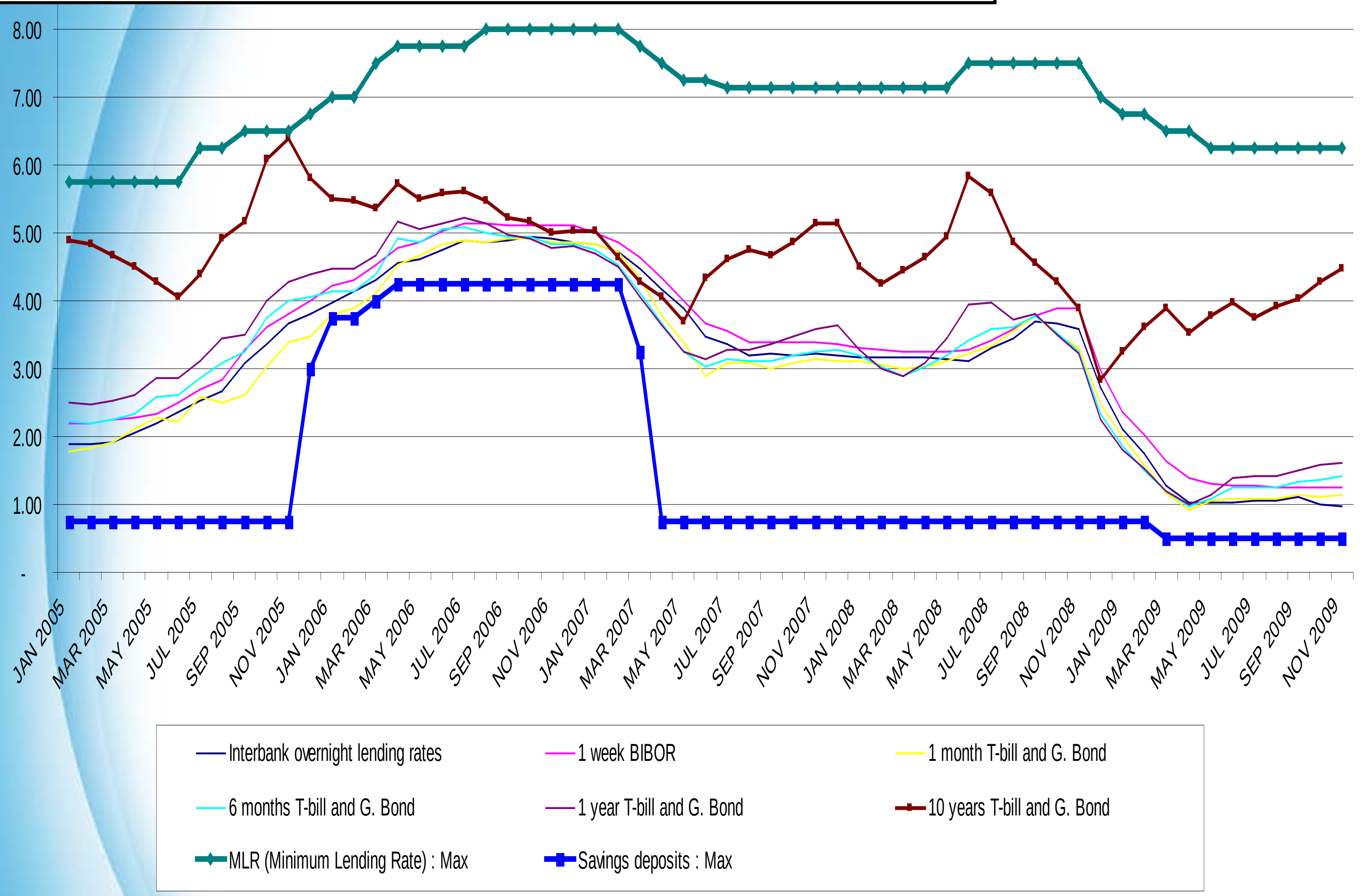
1. Why study financial markets?

- Since we use money for efficiency, financial markets become important.
- We, economists, think that ***financial markets*** transfer funds from people who have an excess of funds to people who have a shortage.
- This promotes economic efficiency as well.

1.1 Bond Market

- A ***security*** is a claim on the issuer's future income or assets.
- A ***bond*** is a debt security that promises to make payments periodically for a specified period of time.
- An ***interest rate*** is the cost of borrowing for the rental of funds.

Source:
http://www.bot.or.th/English/Statistics/FinancialMarkets/InterestRate/Pages/StatInterestRate.aspx



1.2 Stock Market

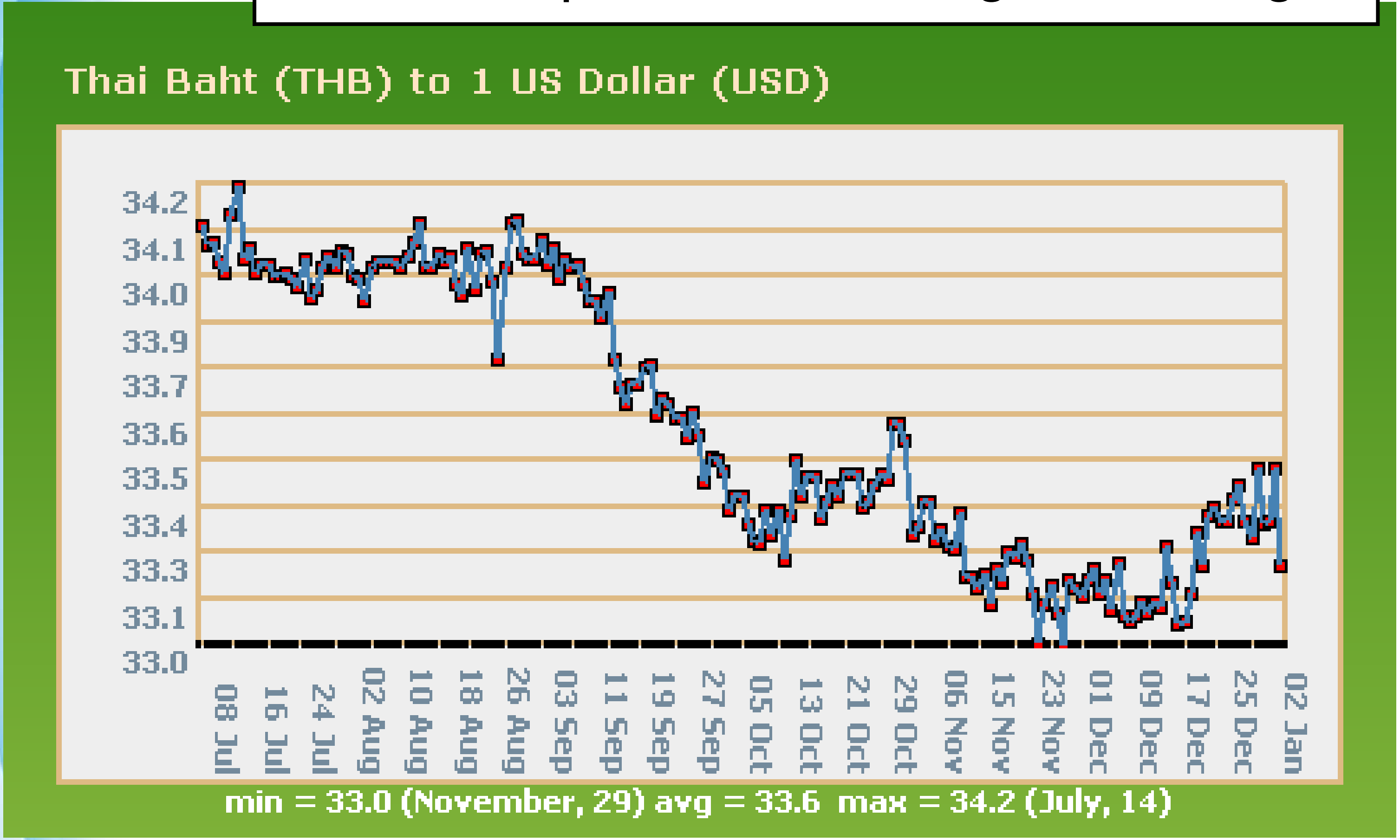
- A ***common stock*** represents a share of ownership in a corporation. It is a security that claims on the earnings and assets of a corporation.

http://www.bloomberg.com/quote/SET:IND/chart

1.3 Foreign Exchange Market

- The ***foreign exchange market*** is where people convert between domestic currency and foreign currencies.
- The ***foreign exchange rate*** is the price of one country's currency in terms of another country's.

Source: http://www.exchange-rates.org



2. Why study banking and financial institutions?

- This is an important channel (maybe the most important channel in Thailand) in transferring funds.
- We will see the functions and operations of these financial intermediaries in this course.

2.1 Banks

- ***Banks*** are financial institutions that accept deposits and make loans.
- They are the financial intermediaries that the average person interacts with most frequently.

2.2 Other financial institutions.

- These include, for example, insurance, finance companies, mutual funds, government financial intermediation, and investment banks.

3. Why study the central bank?

- We, economists, think that changes in money supply can affect our daily lives.
- We also think that monetary policy is important for stabilizing our economy.
- The Bank of Thailand, our central bank, takes care of monetary policy in Thailand.

3.1 Crises and Financial Sector

- Financial sector plays an important role to create or amplify many crises in the past.
- We, as economists, need to understand the relationship between financial sector and crises to solve or prevent the problems in the future.

3.2 Central Bank and the Financial Regulator

- The Bank of Thailand plays an important part in regulating financial sector.

- Deposit Protection Agency (DPA)
- Counter-cyclical regulations

Financial Games

- *Best Life Insurance*
- *Value Investor*
- *Strong Commercial Bank*

- Students should arrange into 10 or 12 groups
- There will be 3 reports, 2 presentations, and 1 comment for each group
- Electronic files send to s.pawin@gmail.com

Evaluation

• Presentation of the financial games	30 %
• Reports on the financial games	15%
• Comments on the financial games	10%
• Midterm exam (4 March 2014; 8.00 – 9.30 AM)	15%
• Final exam (19 May 2014; 9.00 AM – noon)	30%

Other policies

- The lecturer retains his right to give a final grade basing on his criteria.
- Topics covered may be adjusted.
- There will ***not*** be any supplementary exams. Hence, you should stay happy and healthy throughout the class.

BE Moodle

- Keep checking Moodle of the class