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**Course Syllabus**  
**EE 431 Economics of Financial Markets and Institutions**

Semester 2/2018 (January 14 – May 12, 2019)

**Number of credits:** 3 credits (3-0-6)  
**Date and Time:** Tuesday and Thursday, 8.00 – 9.30 AM.  
**Class venue:** **Room 202**, Economics Faculty Building  
**Mid-Term Examination:** **Tuesday, March 5, 2019, 09.00 - 11.00 hrs.**  
**Final Examination:** **Wednesday, May 29, 2019, 09.00 – 12.00 hrs.**

**Instructor:**

**Instructor's Name :** Sicha Thubdimphun  
**Office:** Room 469  
**Office hours:** Tuesday 13.00 – 1.30 AM. or by appointment  
**Contact Information:** [sicha@econ.tu.ac.th](mailto:sicha@econ.tu.ac.th)

**Course description and prerequisite:**

**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.

**Prerequisite:** EE311

**Course Objective:**

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

## 6. Teaching Materials and Resources

### **Required Text:**

Frederic Mishkin, The Economics of Money, Banking and Financial Markets 9<sup>th</sup> 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.

**Handouts or related materials** (if any) will be uploaded on BE moodle at least two days before each lecture.

## Teaching Plan

Date	Topics	Reading
<b>Part I : Economic Analysis of Asset Prices</b>		
15,17 Jan	Topic 1. Financial assets and the overview of financial market (1 time) 1.1 Money and functions of money 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	FM2009 Ch. 1-3
22, 24 ,29, 31 Jan 5, 7,12,14 ,19 Feb.	Topic 2. Debt Market and Structure of interest rates (9 times) 2.1 Measuring Interest Rates 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	FM2009 Ch.4-6
21, 26, 28 Feb	Topic 3. Mean-Variance Analysis (3 times) 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	Copeland20 05 Ch.5
12, 14, 19, 21 Mar	Topic 4: Capital asset pricing model (CAPM) and Arbitrage Pricing Theory (APT) (4 times) 4.1 Capital Asset Pricing Model <ul style="list-style-type: none"> <li>• Portfolio Diversification and Individual Asset Risk</li> <li>• Assumptions</li> <li>• The Efficiency of Market Portfolio</li> <li>• Derivation of CAPM</li> <li>• Properties of CAPM</li> </ul> 4.2 Arbitrage Pricing Theory <ul style="list-style-type: none"> <li>• Arbitrage Opportunity</li> <li>• Replicating Portfolio</li> </ul>	Copeland20 05 Ch.6

Date	Topics	Reading
	<ul style="list-style-type: none"> <li>• Derivation of Arbitrage Pricing Theory</li> </ul>	
<b>Part II : Financial Institution, Financial Market and Asymmetric Information</b>		
26, 28 Mar	Topic 5. Financial institutions (2 times) 5.1 Introduction 5.2 Major risks faced by banks 5.3 Liquidity Management and The Role of Reserve 5.4 Interest Rate Risk Management 5.5 Credit Risk Management 5.6 Capital Adequacy Management	FM2009 Ch.9 -11
2, 4, 9, 11 April	Topic 6. Theory of financial intermediation (5 times) 6.1 Introduction 6.2 Shortcomings of direct finance 6.3 How banks help to resolve the problem? (a) Confidentiality and The Banking Relationship (b) Economies of Scale and Role of Diversification in Banking: Financial Intermediation as Delegated Monitoring	PS2000 Ch.8 Diamond (1996)
23, 25 April	Topic 7. Convexity, excessive risk, and bank regulation (2 times) 7.1 Decision Under Uncertainty 7.2 Agency Cost of Debt Finance : Conflict between a firm's bondholders and stockholders 7.3 Asset Substitutions Problem 7.4 How to solve asset substitution problem?	PS2000 Ch.9
30 April, 2, 7, 9 May	Topic 8. Bank runs, systemic risk and deposit insurance (4 times) 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	Diamond (2007)

## 7. Evaluation:

Mid-term exam	30% (Topic 1 – Topic 3)
Final exam	60% (Topic 4 – Topic 8)
Homework and Quiz	10%

## 8. 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.

If a student is not convenient to meet at the lecturer's office hours, please make an appointment in advance via email. Please allow enough time (at least 2 working days) for the lecturer to confirm the appointment. The student also should 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 during office hours or you may make an appointment.**



## ACADEMIC CALENDAR SEMESTER 2/2018

### Event

Semester 2  
(January - June 2019)

Pre-Registration period (BE Portal)	October 29 - November 1, 2018
Course Registration (Reg TU)	November 20 - 23, 2018
Payment	November 20 - 26, 2018
Classes Begin	January 14, 2019
Adding and Dropping Courses W/O Record	January 14 - 28, 2019
Payment	January 14 - 29, 2019
<i>Makha Bucha Day*</i>	<i>February 19, 2019</i>
Mid-term Examination Period	March 4 - 9, 2019
Course Withdrawal With "W"	March 20 - 25, 2019
<i>Chakri Memorial Day*</i>	<i>April 6, 2019</i>
<i>Substitution for Chakri Memorial Day*</i>	<i>April 8, 2019</i>
<i>Songkran Festival Day*</i>	<i>April 12 - 18, 2019</i>
Last Day of Classes	May 12, 2019
Final Examination Period	May 13 - 17, 21 - 30, 2019

Remark:

\* Holiday, No classes during this period