



Course Outline

EE 431 Economics of financial markets and financial institutions

Semester 2/2017 (Jan 8th – May 20th, 2017)

1. Logistic information

Instructor's Name: Kittichai Saelee
Date and Time : Tuesday and Thursday, 8.00 – 9.30 AM.
Class venue: **Room 304** , Economics Faculty Building
Email: [kittichai_lee\[at\]econ.tu.ac.th](mailto:kittichai_lee[at]econ.tu.ac.th)
Office hours: Room 516,
Tuesday: 2 pm – 4 pm, or by appointment.
(Please send me an email ahead of time.)

2. 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*

3. Course Objectives:

- 3.1) To provide students with understanding of financial asset characteristics; risk, return and liquidity
- 3.2) 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
- 3.3) To provide students with understanding of debt market and interest rate at microeconomic level.
- 3.4) 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.
- 3.5) To provide students with understanding of asymmetric information problem in the financial market and the role of financial intermediaries
- 3.6) To provide students with understanding of risk management of financial institutions
- 3.7) To provide students of understanding of banking industry from the aspect of industrial organization, and the role played by regulation
- 3.8) To understand the cause and consequence of financial crisis

4. Teaching Materials and Resources

Required Text:

1. (MF) Mishkin Frederic "The economics of money, banking and financial institutions" Person series
2. (PS) Peter D Spencer, The Structure and Regulation of Financial Market (Oxford University Press, 2000)
3. (CW) Copeland, Thomas E. and J. Fred Weston, Financial Theory and Corporate Policy, 4th edition, (Addison-Wesley, 2005)

4. (KM) Kent Matthews and John Thompson, *The Economics of Banking*, John Wiley & Sons, LTD, 2005.

Supplement readings:

1. Diamond Douglas (2007), *Bank and Liquidity Creation: A Simple Exposition of the Diamond-Dybvig Model*, Federal Reserve Bank of Richmond Economic Quarterly.
2. Diamond Douglas (1996), "Financial Intermediation and Delegated Monitoring: A Simple Example", Federal Reserve Bank of Richmond Economic Quarterly.
3. Jean Tirole "Corporate finance" Princeton university press
4. Frexias and Rochet "microeconomics of banking" Princeton university press

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

Warning: This is an advanced level course in the field of monetary economics. It requires you deep analytical thinking skill. ***In some parts, your previous training in mathematics and statistics are also required.*** Be prepared! While class attendance is not required in this course, I find it is incredible that you would follow all the materials without attending.

5. Course evaluations:

- Homework (3 persons in a group) or Individual quiz: 15%
- Midterm exam: 40% (March, 13th 2017; 09.00 am – 11.00 am)
- Final exam: 45% (May, 24th 2017; 9.00am – 12.00pm)

Note: No make-up exam will be given to both midterm and final exam.

6. Important dates:

- Semester 2/2017 begins January 8, 2018
- **Mid-Term Examination Period** **March 12 - 17, 2018**
(Tuesday, March 13, 2018, 09.00 - 11.00 hrs.)
- Course withdrawal with “W” March 28 – April 2, 2018
- Chakri Memorial Day April 6, 2018
- Songkran Festival Day April 11-17, 2018
- Royal Ploughing Ceremony Day May 14, 2018
- Last day of class May 20, 2018
- **Final Examination Period** **May 21 – June 2, 2018**
(Thursday, May 24, 2018, 09.00 – 12.00 hrs.)

7. Lecture outline:

Topics	Reading
1. Overview of financial system (2 lectures) <ul style="list-style-type: none"> • Understanding Thai financial landscape 	Mishkin Ch. 1- Ch.3
<i>Part I Understanding financial markets</i>	
2. Bond market (7 lectures) <ul style="list-style-type: none"> • Bond yield, rate of return and interest rate risk • Loanable-fund framework model • Risk structure of interest rate • Term structure of interest rate 	Mishkin Ch. 4 – Ch. 6
3. Stock market (5 lectures) <ul style="list-style-type: none"> • Stock valuation • A primer in CAPM and APT theorem • Efficient market hypothesis • Anomalies in the stock market 	Mishkin Ch.7
<i>Midterm exam</i> Tuesday, March 13, 2018, 09.00 - 11.00 hrs	

Topics	Reading
<i>Part II Understanding financial institutions and financial crisis</i>	
4. Theory of financial structure (4 lectures) <ul style="list-style-type: none"> • Stylized-facts on financial/Capital structure • Market frictions and endogenous existence of financial structure • Theory of optimal financial contract 	Mishkin Ch. 8
5. Theory of financial intermediation (8 lectures) <ul style="list-style-type: none"> • Justifying the existence of financial institutions • Banking and alternative financial intermediations • Bank managements • Banking industry, Financial stability <i>and</i> regulation 	Mishkin Ch. 8 Mishkin Ch. 8, KM: Ch. 3 Mishkin Ch.9 / KM Ch.13 Mishkin Ch.10, KM Ch. 12
6. Theory of financial crisis (3 lectures) <ul style="list-style-type: none"> • Anatomy of financial crisis • The financial crisis in advanced economy • The financial crisis in emerging market economy 	Mishkin Ch. 12 Mishkin Ch. 13
<i>Final exam</i> Thursday, May 24, 2018, 09.00 – 12.00 hrs.	