



# B.E. International Program

## Faculty of Economics, Thammasat University



### Course Syllabus

#### EE431 Economics of Financial Markets and Institutions

Semester 1/2019 (August 13 – December 16, 2019)

**Number of credits:** 3 credits (3-0-6)

**Lecture Time:** Tuesday and Thursday, 8.00 – 9.30 AM.

**Lecture Venue:** Room 202, Faculty of Economics

**Instructor:** **Asst. Prof. Dr. Pawin Siriprapanukul**  
Room 453, Faculty of Economics  
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#### 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 micro 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 understanding of asymmetric information problem in the financial market and the role of financial intermediaries.

6. To provide students with understanding of risk management of financial institutions.
7. 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.
10. To provide students with understanding of financial crisis, and the relationship between the crisis and the financial sector.

Students are also encouraged to practice collaborative problem-solving and presentation skills in this class.

## Teaching Materials and Resources:

### *Main textbook:*

[Mishkin] Mishkin, F.S. **The Economics of Money, Banking, and Financial Markets**. Pearson/Addison Wesley.

[A&D] Ackert, L. and R. Deaves (2010) **Behavioral Finance: Psychology, Decision-Making, and Markets**. South-Western Cengage Learning.

[Brunnermeier et al.] Brunnermeier, M., A. Crocket, C. Goodhart, A.D. Persaud, and H. Shin (2009). The Fundamental Principles of Financial Regulation. **Geneva Reports on World Economy** 11. Parts 1 – 4.

### *Required Readings:*

[Siegel&Thaler] Siegel, J.J. and R.H. Thaler (1997). Anomalies: the equity premium puzzle. **Journal of Economic Perspectives** 11(1), pp. 191 – 200.

[Daniel&Hirshleifer] Daniel, K. and D. Hirshleifer (2015). Overconfident investors, predictable returns, and excessive trading. **Journal of Economic Perspectives** 29(4), pp. 61 – 88.

[Brunnermeier, 2009] Brunnermeier, M. (2009). Deciphering the liquidity and credit crunch 2007 - 2008. **Journal of Economic Perspectives** 23(1), pp. 77 - 100.

[Aikman et al.] Aikman, D., J. Bridges, A. Kashyap, and C. Siegert (2019). Would macroprudential regulation have prevented the last crisis? **Journal of Economic Perspectives** 33(1), pp. 107 – 130.

### *Some Useful Links:*

The Bank of Thailand: <https://www.bot.or.th/English/Pages/default.aspx>

The Securities and Exchange Commission: <http://www.sec.or.th/EN/Pages/Home.aspx>

The Stock Exchange of Thailand: <http://www.set.or.th/set/mainpage.do>

The Thai Bond Market Association: <http://www.thaibma.or.th/>

The Office of Insurance Commission: <http://www.oic.or.th/en/>

The Deposit Protection Agency: <http://www.dpa.or.th/main.php?filename=index> EN

The Bank for International Settlement: <https://www.bis.org/>

The International Monetary Fund: <http://www.imf.org/external/index.htm>

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

## Class Talks:

Students should arrange into 8 groups. There will be two talks on issues related to JEP articles and content in class. At each talk, each group summarizes related JEP articles, one page for each article, and submit to the lecturer. At each talk, each group present your own idea about the topic of the talk with Powerpoint (or something similar) not exceeding three pages. The presentation can cover anything related to the topic. At each talk, four groups will be selected to present their own idea about the topic of the talk. After that, class will discuss about current development and what will happen in the future.

## Evaluation:

Class Talks	25%
Mid-term examination	30%
Final examination	45%

## 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.

## Teaching Plan:

No	Date	Activity	Documents
1	13-Aug-19	Course outline + Class rules	Course Outline + Mishkin Ch.1
2	15-Aug-19	Money + The financial system	Mishkin Ch.2-3
3	20-Aug-19	Interest rates	Mishkin Ch.4
4	22-Aug-19	Behavior of the interest rates	Mishkin Ch.5
5	27-Aug-19	Risks in Mainstream Economics	A&D Ch.1
6	29-Aug-19	The Risk and Term Structure of Interest Rates	Mishkin Ch.6
7	3-Sep-19	Introduction to stock markets	Mishkin Ch.7
8	5-Sep-19	Mainstream: Expected Utility and asset pricing	A&D Ch.2
9	10-Sep-19	Mainstream: Stocks and CAPM	A&D Ch.2
10	12-Sep-19	Mainstream: Efficient Market Hypothesis (EMH)	A&D Ch.2, Mishkin Ch.7
11	17-Sep-19	Behavioral: Some challenges to EMH	A&D Ch.4
12	19-Sep-19	Behavioral: Prospect Theory	A&D Ch.3
13	24-Sep-19	Behavioral: The Equity Premium Puzzle	Siegel&Thaler
14	26-Sep-19	Behavioral: The Overconfidence Investors	Daniel&Hirshleifer
		<b>Midterm Exam.</b>	<b>Tuesday, 1 October, 9.00 – 11.00 hrs.</b>
15	8-Oct-19	Class talk 1: Stock market in the future	Siegel&Thaler and Daniel&Hirshleifer

No	Date	Activity	Documents
16	10-Oct-19	Economic analysis of the financial system	Mishkin Ch.8
17	15-Oct-19	Banking	Mishkin Ch.10
18	17-Oct-19	Regulation1: Deposit Insurance	Mishkin Ch.11, MacDonald, 1996
19	22-Oct-19	Regulation2: Risk based capital regulation and Mark-to-Market Accounting	Mishkin Ch.11
20	24-Oct-19	Regulation3: Procyclicality of some regulations	Brunnermeier et al. Section 2
21	29-Oct-19	The Sub-prime crisis 1: Important components	Mishkin Ch.9
22	31-Oct-19	The Sub-prime crisis 2: The crisis of credit visualized	<a href="https://www.youtube.com/watch?v=bx_LWm6_6tA">https://www.youtube.com/watch?v=bx_LWm6_6tA</a>
23	5-Nov-19	The Sub-prime crisis 3: Some mechanism	Brunnermeier et al. Section 2
24	7-Nov-19	Deciphering the liquidity and credit crunch 2007 - 2008	Brunnermeier, 2009
25	12-Nov-19	The Fundamental Principles of Financial Regulation 1: Countercyclical regulation	Brunnermeier et al. Section 3 - 4
26	14-Nov-19	The Fundamental Principles of Financial Regulation 2: VaR Vs CoVaR	Brunnermeier et al. Section 4
27	19-Nov-19	The Fundamental Principles of Financial Regulation 3: Mark to Funding	Brunnermeier et al. Section 5
28	21-Nov-19	Regulation at the present time	Aikman et al.
29	26-Nov-19	Class Talk 2: Regulation in the present time and the future.	Brunnermeier et al. and Aikman et al.
30	28-Nov-19	Class conclusion	
		<b>Final Exam</b>	<b>Monday, 9 December, 9.00 – 12.00 hrs.</b>

**Remarks:**

- ◆ **Mid-Term Examination :** (Tuesday, October 1, 2019, 09.00 - 11.00 hrs.)
- ◆ **Final Examination :** (Monday, December 9, 2019, 09.00 – 12.00 hrs.)



## ACADEMIC CALENDAR SEMESTER 1/2019

Event	Semester 1 (August - December 2019)
Pre-Registration period (BE Portal)	July 8 - 10, 2019
Course Registration (Reg TU)	July 23 - 26, 2019
Payment	July 23 - 29, 2019
Classes Begin	August 13, 2019
Adding and Dropping Courses W/O Record	August 13 - 26, 2019
Payment	August 13 - 27, 2019
Mid-term Examination Period	September 30 - October 5, 2019
<i>His Majesty the late King Bhumibol Adulyadej Memorial Day*</i>	<i>October 13, 2019</i>
<i>Substitution for His Majesty the late King Bhumibol Adulyadej Memorial Day*</i>	<i>October 14, 2019</i>
Course Withdrawal With "W"	October 16 - 21, 2019
<i>King Chulalongkorn Memorial Day*</i>	<i>October 23, 2019</i>
Last Day of Classes	December 1, 2019
Final Examination Period	December 2-4, 6-9, 11-16, 2019
<i>The birthday of His Majesty the late King Bhumibol Adulyadej*</i>	<i>December 5, 2019</i>
<i>Constitution Day*</i>	<i>December 10, 2019</i>

**Remark:**  
\* Holiday, No classes during this period