

## Course Syllabus

### EE 431 (2/2016) Economics of Financial Markets and Institutions

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#### 1. Logistic information

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| <b>Instructor's Name:</b> | Kittichai Saelee   |
| <b>Date and Time :</b>    | Tuesday and Thursday, 8.00 – 9.30 AM.  |
| <b>Class venue:</b>       | <b>Room 302</b> , Economics Faculty Building                                       |
| <b>Office hours:</b>      | Room 516, TUE 1 pm – 4 pm, or by appointment                                       |
| <b>Email:</b>             | <a href="mailto:kittichai_lee[at]econ.tu.ac.th">kittichai_lee[at]econ.tu.ac.th</a> |

#### 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. (DD) Jean-Pierre Danthine (Author), John B. Donaldson (Author) Intermediate Financial Theory, Third Edition (Academic Press Advanced Finance) 3rd Edition
2. (MF) Mishkin Frederic "The economics of money, banking and financial institutions" Person series
3. (PS) Peter D Spencer, The Structure and Regulation of Financial Market (Oxford University Press, 2000)
4. (CW) Copeland, Thomas E. and J. Fred Weston, Financial Theory and Corporate Policy, 4th edition, (Addison-Wesley, 2005)
5. (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"

**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:

- Quiz: 10%
- Homework: 10%
- Midterm exam: 35% (March, 7th 2017)
- Final exam: 45% (May, 23rd 2017; no make-up given)

## 6. Important dates:

- **Midterm exam:** March 7<sup>th</sup> 2017
- **Drop period:** March 22<sup>nd</sup> – 27<sup>th</sup>, 2017
- **Final exam:** May, 23rd 2017; no make-up given

### ===== Part A: financial markets =====

#### Part 0: Logistic information and course overview (1 lecture)

#### Part 1: Traditional approach to portfolio selection (5 lectures)

- 1.1) Choices under risky situation: Expected utility approach (ch.3, DD, 1 lecture)
- 1.2) Measuring risk and risk aversion (ch.4, DD, 2 lectures)
- 1.3) Risk aversion and Investment decision (ch.5, DD, 2 lectures)

#### Part 2: Theory of bond market (9 lectures)

- 2.1) Basic bond pricing formula: yield and price (Mishkin ch.4, 1 lecture)
- 2.2) Return on bond investment: interest rate risk (Mishkin ch.4, 2 lecture)
- 2.3) Two useful models for interest rate determination (Mishkin Ch.5, 2 lectures)
- 2.4) Risk and term structure of interest rate (Mishkin Ch.6, 4 lectures)

===== Midterm exam (March 7<sup>th</sup>, 2016) =====

### ===== Part B: Capital market and financial institutions =====

#### Part 3 Stock market (Mishkin Ch.7; 3 lectures)

- 3.1) Basic valuations of stock and CAPM
- 3.2) Efficient market hypothesis and anomalies in the capital market
- 3.3) Predictive indicator using information in capital market

#### Part 4 Theory of financial intermediations (12 lectures)

- 4.1) Overview on financial structure (Mishkin Ch.8, 1 lecture)
- 4.2) Basic bank management (Mishkin Ch.9, 2 lectures)
- 4.3) Banking industry and Industrial organization of banking firms (KM: 3 lectures)
- 4.4) Regulating the banking system (Mishkin Ch. 10: 2 lectures)
- 4.5) Financial crisis in advanced countries (Mishkin Ch. 12; 2 lecture)
- 4.6) Financial crisis in emerging countries (Mishkin Ch. 13; 2 lecture)

===== Final exam (May 23<sup>rd</sup>, 2016) =====