Course Outline
EE431 Economics of Financial Markets and Institutions
Semester 2 / 2013

Lecturer: Pawin Siriprapanukul (Office No. 453)
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Hours: Tuesdays and Thursdays, 8.00 – 9.30 AM
Prerequisite: EE311

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:

1) To understand the functions of money and the financial system.
2) To introduce various components of the financial system.
3) To get some ideas of financial development and banking.
4) To practice research and presentation skills.
5) To apply theoretical ideas with the real world.

Readings:

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

[Pindyck&Rubinfeld] Pindyck, R.S. and D.L. Rubinfeld (2009). Microeconomics (7^{th} Ed). Pearson Prentice Hall.

[Blanchard] Blanchard, O. (2009) The crisis: Basic mechanisms and appropriate policies. ***IMF Working Paper*** WP/09/80.

[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.

[Lynch&Rothchild] Lynch, P. and J. Rothchild (1994) ***Beating the street***. Simon & Schuster (Revised edition), Ch. 1 – 2.

[Shiller] Shiller, R.J. (2003). From efficient markets theory to behavioral finance. ***The Journal of Economic Perspectives*** 17(1), pp. 83 – 104.

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

Class policy:

1) The topics may be adjusted if appropriate.
2) There will ***not*** be any supplementary examinations in this class. The students who cannot attend any examination will get zero on that exam.

Financial game:

There will be 3 financial games in this class, which are

1) *Best Life Insurance*: Each group is required to find a pamphlet or an internet brochure of a life insurance program that tells every detail of the program. Also, explain why it is the best program.
2) *Value Investor*: Each group is required to pick up on stock from the Stock Exchange of Thailand, which is best for long-term investment. Explain your reasons, including financial ratios.
3) *Strong Commercial Bank*: Each group is required to predict the interest rate next year. Next, pick one commercial bank in Thailand (not in BIG4), figure out relevant assets and liabilities, and make recommendations to the bank.

Students should arrange into 10 or 12 groups. The presentations will be as the following:

- In game 1, every group presents for 15 minutes.
- In game 2, the first 5 or 6 groups present within 20 minutes, while the last 5 or 6 groups comments within 10 minutes. The matching between presenter and commenter is by drawing lots.
- In game 3, the last 5 or 6 groups present within 20 minutes, while the first 5 or 6 groups comments within 10 minutes. The matching between presenter and commenter is by drawing lots.

Each group is required to submit a short report for each financial game. The submission should be composed of:

- Printed report, not exceeding 5 pages with complete data.
- Electronic file of the report.
- In case of presentation, the group should submit electronic copy of the presentation file as well.

Class plan:

No.	Date	Topics / Activities	Documents	Note
1	14-Jan-14	Course outline + Class rules	Course Outline + Mishkin Ch.1	
2	16-Jan-14	Money + The financial system	Mishkin Ch.2-3	
3	21-Jan-14	Interest rates	Mishkin Ch.4	
4	23-Jan-14	Bond pricing	Excel workbook	
5	28-Jan-14	Financial Game 1: The explanation	Class materials	
6	30-Jan-14	Behavior of the interest rates	Mishkin Ch.5	
7	*4-Feb-14*	*Financial Game 1: Presentation*		*Submission 1/ Presentation 1*
8	*6-Feb-14*	*Financial Game 1: Presentation (Cont.)*		*Presentation 1*
9	11-Feb-14	Interest rates structure	Mishkin Ch.6	
10	13-Feb-14	Stock market in the mainstream	Pindyck&Rubinfeld Ch.5, Mishkin Ch.7	
11	18-Feb-14	Behavioral finance	Shiller	
12	20-Feb-14	Financial Game 2: The explanation	Class materials	
13	25-Feb-14	The equity premium puzzle	Siegel&Thaler	
14	27-Feb-14	Foreign exchange market	Mishkin Ch.17	
	4-Mar-14	Midterm Exam.		

No.	Date	Topics / Activities	Documents	Note
	6-Mar-14	Midterm Exam. Week		
15	***11-Mar-14***	***Financial Game 2: Presentation***		***Submission 2/ Presentation 2***
16	***13-Mar-14***	***Financial Game 2: Presentation (Cont.)***		***Presentation 2***
17	18-Mar-14	Economic analysis of the financial system	Mishkin Ch.8	
18	20-Mar-14	Banking	Mishkin Ch.9	
19	25-Mar-14	Regulations on financial intermediaries	Mishkin Ch.11	
20	27-Mar-14	Financial Game 3: The explanation	Class materials	
21	8-Apr-14	The Sub-prime crisis 1	Blanchard	
22	10-Apr-14	The Sub-prime crisis 2	Brunnermeier Et.al.	
	15-Apr-14	Songkran Festival		
23	17-Apr-14	The Fundamental Principles of Financial Regulation 1	Brunnermeier Et.al.	
24	***22-Apr-14***	***Financial Game 3: Presentation***		***Submission 3/ Presentation 3***
25	***24-Apr-14***	***Financial Game 3: Presentation (Cont.)***		***Presentation 3***
26	29-Apr-14	The Fundamental Principles of Financial Regulation 2	Brunnermeier Et.al.	
27	1-May-14	Course conclusion		

Evaluation:

1) Presentation of the financial games 30%
    a. Communication skills
    b. Presentation file
    c. Content
    d. Time management
    e. Q&A
2) Reports on the financial games 15%
    a. Content and data
    b. References
3) Comments on the financial games 10%
4) Midterm examination 15%
   (4 March 2014; 8.00 – 9.30 AM)
5) Final examination 30%
   (19 May 2014; 9.00 AM - noon)