B.E. International Program

Faculty of Economics, Thammasat University

Course Outline

EE 431 Economics of Financial Markets and Institutions

Semester: 2/2015 (January 18 – May 14, 2016)

Instructor: **Dr. Pawin Siriprapanukul**
Office: BE Director Office, 5th floor
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Class Schedule: Tuesdays and Thursdays at 8.00 – 9.30 hrs.

Class Room: Room 302, Faculty of Economics

Prerequisites: *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:

Eventually, we expect that the students of this course would be able to:

1) Understand the functions of money and the financial system
2) See the connection between financial sector and real sector
3) Have basic knowledge on various components of the financial system
4) Get some ideas of financial development
5) Understand the main problems of financial transactions
6) Practice research and presentation skills
7) Apply theoretical ideas to the real world

Method of Instruction: There are a total of 48 class-hours for this course or 3 hours per week. Class activities include lectures, discussions, and presentations. Students are expected to work on two group presentations, and participate in class discussions.

Student Evaluation:

Class participation	5%
Reports	10%
Presentation	20%
Mid-term examination	25% (**Tuesday, March 8, 8.00 – 9.30 hrs.**)
Final examination	40% (**Wednesday, May 25, 9.00 – 12.00 hrs.**)

Main Textbooks:

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

Required Readings:

[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.

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

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 most valuable program for the specified customers.
2) *Value Investor*:
   Each group is required to pick up a 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 groups. The presentations will be as the following:

- In game 1, every group presents for 15 minutes.
- In game 2, the first 5 groups present within 25 minutes, while the last 5 groups comments within 5 minutes. The matching between presenter and commenter is by drawing lots.
- In game 3, the last 5 groups present within 25 minutes, while the first 5 groups comments within 5 minutes. The matching between presenter and commenter is by drawing lots.

In each game, each group is required to submit:

- Printed report, not exceeding 8 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.

Teaching Plan:

No.	**Topics / Activities**	**Documents**	**Note**
1	Course outline + Class rules	Course Outline + Mishkin Ch.1	
2	Money + The financial system	Mishkin Ch.2-3	
3	Interest rates	Mishkin Ch.4	
4	Bond pricing	Excel workbook	
5	Financial Game 1: The explanation	Class materials	
6	Behavior of the interest rates	Mishkin Ch.5	
7	***Financial Game 1: Presentation***		***Submission 1/ Presentation 1***
8	***Financial Game 1: Presentation (Cont.)***		***Presentation 1***
9	Interest rates structure	Mishkin Ch.6	
10	Stock market in the mainstream	Pindyck&Rubinfeld Ch.5, Mishkin Ch.7	

No.	Topics / Activities	Documents	Note
11	Behavioral finance	Shiller	
12	Financial Game 2: The explanation	Class materials	
13	The equity premium puzzle	Siegel&Thaler	
14	Foreign exchange market	Mishkin Ch.17	
	Midterm Exam.	Tuesday, March 8, 8.00 – 9.30 hrs.	
15	***Financial Game 2: Presentation***		***Submission 2/ Presentation 2***
16	***Financial Game 2: Presentation (Cont.)***		***Presentation 2***
17	Economic analysis of the financial system	Mishkin Ch.8	
18	Banking	Mishkin Ch.9	
19	Regulations on financial intermediaries	Mishkin Ch.11	
20	Financial Game 3: The explanation	Class materials	
21	The Sub-prime crisis 1	Blanchard	
22	The Sub-prime crisis 2	Brunnermeier Et.al.	
23	The Fundamental Principles of Financial Regulation 1	Brunnermeier Et.al.	
24	***Financial Game 3: Presentation***		***Submission 3/ Presentation 3***
25	***Financial Game 3: Presentation (Cont.)***		***Presentation 3***

No.	Topics / Activities	Documents	Note
26	The Fundamental Principles of Financial Regulation 2	Brunnermeier Et.al.	
27	Course conclusion		
	Final Exam	Wednesday, May 25, 9.00 – 12.00 hrs.	
