B.E. International Program

Faculty of Economics, Thammasat University

Course Syllabus

EE431 Economics of Financial Markets and Institutions

Semester 1/2018 (August 14 – December 3, 2018)

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

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

Lecture Venue: Room 201, 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.

Required Readings:

[Blanchard, 2009] Blanchard, O. (2009) The crisis: Basic mechanisms and appropriate policies. **IMF Working Paper** WP/09/80.
[Brunnermeier, 2009] Brunnermeier, M. (2009). Deciphering the liquidity and credit crunch 2007 - 2008. **Journal of Economic Perspectives** 23(1), pp. 77 - 100.
[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.
[Ackert&Deaves] Ackert, L.F. and Deaves, R. (2010). **Behavioral Finance: Psychology, Decision-Making, and Markets**. South-Western, Cengage Learning.
[MacDonald, 1996] MacDonald, R. (1996). Deposit insurance. **Handbook in Central Banking** No. 9, Centre for Central Banking Studies, Bank of England, London.
[Robinson, 2011] Robinson, D. (2011). A very brief introduction to the time value of money. Available at: http://faculty.haas.berkeley.edu/robinson/Papers%20DOR/Time%20Value.pdf.
[Siegel&Thaler] Siegel, J.J. and R.H. Thaler (1997). Anomalies: the equity premium puzzle. **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

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

Financial Games

There will be 2 financial games in this class, which are

1) *Best Life Insurance*:
   Each group is required to figured out the most valuable life insurance program for the specified customers.
2) *Value Investor*:
   Each group is required to pick up a stock from SET or MAI, which is best for long-term investment. Explain your reasons, including financial ratios.

Students should arrange into 6 groups. There will be explanation of each financial game in advance. Each group should prepare to meet with specific questions and make presentations in some classes.

Teaching Plan

No	Date	Activity	Documents
1	14-Aug-18	Course outline + Class rules	Course Outline + Mishkin Ch.1
2	16-Aug-18	Money + The financial system	Mishkin Ch.2-3
3	21-Aug-18	Interest rates	Mishkin Ch.4
4	23-Aug-18	Bond pricing	Robinson, 2011
5	28-Aug-18	Behavior of the interest rates	Mishkin Ch.5
6	30-Aug-18	Financial Game 1: The explanation	Class materials
7	***4-Sep-18***	***Financial Game 1: Workshop***	
8	***6-Sep-18***	***Financial Game 1: Presentation***	
9	11-Sep-18	Interest rates structure	Mishkin Ch.6
10	13-Sep-18	Stock market in the mainstream: efficient market hypothesis	Mishkin Ch.7, Ackert&Deaves Ch. 2
11	18-Sep-18	Stock market in the mainstream: CAPM	Ackert&Deaves Ch. 2

No	Date	Activity	Documents
12	20-Sep-18	Expected utility theory Vs prospect theory	Ackert&Deaves Ch. 1, 3
13	25-Sep-18	Challenges to the efficient market hypothesis	Ackert&Deaves Ch. 4
14	27-Sep-18	The equity premium puzzle	Siegel&Thaler
		Midterm Exam.	***Tuesday, 2 October, 9.00 – 11.00 AM***
15	9-Oct-18	Midterm Exam Talk	
16	11-Oct-18	Financial Game 2: The Explanations	Class materials
17	***16-Oct-18***	***Financial Game 2: Workshop***	
18	***18-Oct-18***	***Financial Game 2: Presentation***	
19	25-Oct-18	Economic analysis of the financial system	Mishkin Ch.8
20	30-Oct-18	Banking	Mishkin Ch.9
21	1-Nov-18	Regulations on financial intermediaries	Mishkin Ch.11
22	6-Nov-18	Deposit Insurance	MacDonald, 1996
23	8-Nov-18	The Sub-prime crisis 1	Blanchard, 2009
24	13-Nov-18	The Sub-prime crisis 2	Brunnermeier, 2009
25	15-Nov-18	The Fundamental Principles of Financial Regulation 1	Brunnermeier Et.al.
26	20-Nov-18	The Fundamental Principles of Financial Regulation 2	Brunnermeier Et.al.
27	22-Nov-18	The Fundamental Principles of Financial Regulation 3	Brunnermeier Et.al.

No	Date	Activity	Documents
28	27-Nov-18	From Basel I to Basel III	Class materials
29	29-Nov-18	Course conclusion	
		Final Exam	***Tuesday, 11 December, 1.30 – 4.30 PM***

Evaluation:

Financial games	30%
Mid-term examination	30%
Final examination	40%

Remarks:

- First semester begins — August 14, 2018
- Period of withdrawal without "W" — August 14 - 27, 2018
- **Mid-Term Examination Period — October 1 - 6, 2018**

  (Tuesday, October 2, 2018, 09.00 - 11.00 hrs.)
- Course withdrawal with "W" — October 1 - 6, 2018
- Chulalongkorn Memorial Day — October 23, 2018
- Last day of class — December 3, 2018
- **Final Examination Period — December 4, 6-9, 11-20, 2018**

  (Tuesday, December 11, 2018, 13.30 – 16.30 hrs.)