

LEHIGH UNIVERSITY
College of Business and Economics
PERELLA DEPARTMENT OF FINANCE

FIN 330-011 - FINANCIAL MARKETS & INSTITUTIONS

Spring 2011

Time: 1:10 – 2:25 pm, Tuesdays and Thursdays
Classroom: RBC 271
Instructor: Prof. Geraldo M. Vasconcellos
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Office Hours: MWF – 2:00 - 3:00pm
W – 4:00 - 5:00pm
Otherwise by appointment, please

ACCOMODATIONS FOR STUDENTS WITH DISABILITIES

If you have a disability for which you are or may be requesting accommodations, please contact both your instructor and the Office of Academic Support Services, University Center C212 (610-758-4152) as early as possible in the semester. You must have documentation from the Academic Support Services office before accommodations can be granted.

COURSE OBJECTIVES

The overall objective of this course is to examine the nature, purpose and economic functions of financial markets and institutions. More specific objectives are as follows:

1. To recognize the dramatic changes taking place in the financial services industry, leading to a breakdown in interindustry and intercountry barriers.
2. To recognize that domestic and foreign financial markets are increasingly integrated and that financial intermediaries are evolving towards a single financial services industry.
3. To define the various domestic and foreign financial markets and to describe the special functions of financial intermediaries.
4. To analyze the risks faced by investors and savers interacting through both financial institutions and financial markets, as well as strategies for controlling and managing these risks.
5. To examine in depth the various security markets: participants, securities traded, and the trading process.
6. To understand systemic risk in financial markets, including financial crises, contagion, flight to safety, herd behavior, asymmetric information, and the “too big to fail” moral hazard problem.
7. To examine the key characteristics, operations, and regulatory aspects of depository and non-depository financial institutions, such as commercial banks, securities firms and investment banks, and insurance companies.

TEXT AND READINGS

The textbook for this course is Financial Markets and Institutions, by Anthony Saunders and Marcia Millon Cornett, McGraw-Hill, Fourth Edition, 2009.

As a student of Finance, you must keep abreast of recent developments. At a minimum, you need a daily source of financial information. Accordingly, a business and financial newspaper, such as The Wall Street Journal or the Financial Times, is required reading for this course. I also recommend that you read a weekly publication, such as The Economist, for in-depth stories and analysis.

GRADING SYSTEM

The grades for this course will be based on two midterm examinations; a final examination; as well as homework, attendance, and contributions in class. The dates for the examinations are as follows:

1 st Midterm Exam:	Tuesday, February 15
2 nd Midterm Exam:	Tuesday, March 29
Final Exam:	To be announced

The table below shows the percentages of the overall grade which are accounted for by the different graded assignments.

<u>Assignment</u>	<u>Percentage of final grade</u>
1 st Midterm Exam	30%
2 nd Midterm Exam	30%
Final Exam	30%
Homework, attendance and participation	<u>10%</u>
	100%
Recommended book (extra credit) – 2%	

DAY TO DAY MATTERS

A typical class meeting will have a lecture/discussion format. We will cover material from the textbook, discuss assigned readings, and also devote some time to the analysis of end-of-chapter questions and/or problems.

Your participation in the class discussion is very important for the success of the course. Your questions are always welcome, including questions about current events which are relevant for the course but not necessarily related to the topic of a particular class. If I have a meaningful comment to offer on the spot, I will offer it; if not, I will look into the issue and get back to it in the next meeting.

You will find out that not all the material in the chapters assigned will be covered in class. That is by design; I intend to use the time in class primarily to discuss the fundamental concepts. You are still responsible for all of the material in the chapter. I am available to discuss your questions during my office hours or by appointment.

TOPICS AND ASSIGNMENTS

The assignment of a chapter or chapters includes not only reading the body of the chapter, but also attempting to answer the questions and to solve the problems at the end of the chapter. From a given chapter, I may point out in class that a subset of questions/problems is of particular interest; that should be interpreted as a minimum requirement, as opposed to the only questions/problems to which you need to pay attention.

1. Introduction and Overview of Financial Markets

- a. Overview of the Financial System
 - Saunders and Cornett (hereafter SC): Chapter 1

2. Interest Rates, the Fed, and Monetary Policy (Review)

- a. Interest Rates – Fundamentals, Risk Structure and Term Structure
 - SC: Chapters 2 and 3
- b. Central Banking and Monetary Policy
 - SC: Chapter 4

3. Financial Markets

- a. Money Markets
 - SC: Chapter 5
- b. Bond Market
 - SC: Chapter 6
- c. Stock Market
 - SC: Chapter 8
- d. Mortgage Markets
 - SC: Chapter 7
- e. Foreign Exchange Markets
 - SC: Chapter 9
- f. Derivative Securities Markets
 - SC: Chapter 10
- g. Systemic risk and “too big to fail”

4. **Financial Institutions** (if time permits)
 - a. **Overview and Major Sources of Risk**
 - SC: Chapter 19
 - b. **Commercial Banks**
 - SC: Chapter 11
 - c. **Securities Firms and Investment Banks**
 - SC: Chapter 16