

FI/EC 360 ASSET MARKETS, BANKING AND THE INTERNATIONAL FINANCIAL SYSTEM

IES Abroad Vienna

DESCRIPTION: This course deals with the importance of financial asset markets, their influence on the economy, and how they are constrained by their international environment. Although the course focuses on money, arguably the most important financial asset in economic life, it also gives an overview of other, important classes of financial assets, i.e., equities, bonds and derivative securities. It will cover the characteristics of these assets, the principal functions they perform and the institutional environment in which they are traded.

With advancing globalisation, business life becomes increasingly international in character. This is central to this course in several ways. First, the asset markets of different countries become highly integrated, so that shocks are rapidly transmitted throughout the world no matter where they originate. It is important to consider these linkages when examining asset markets, because they constrain the scope to organise “domestic” markets through policy action.

Second, with expanding international trade, banks have become multinational enterprises, active simultaneously in many financial centres. Thus, it is necessary to understand the role of banks in the international transmission of disturbances and the need to implement regulation (such as risk management) in a global framework. We will deal with the main activities of the three dominant types of bank – central banks, commercial banks and investment banks (however blurred the dividing lines between the final two are becoming) – because their main fields of activity remain as relevant as ever. The role of “shadow banks” will also be dealt with because of the need they create to expand the scope of banking regulation.

Returning to our focus on money in the international economy, it is important to understand how exchange rates are determined, i.e. the relative price of two currencies. The course covers the determination of exchange rates. As volatile exchange rates are very disruptive to international trade and payments, the essential features of exchange-rate equilibrium are covered. Different exchange-rate regimes of the past 100 years are also surveyed. The evolution of the European Union is analysed as an exercise in economic and political integration, the largest voluntary episode of its kind in history. The Eurozone is an ultra-fixed exchange-rate system and we ask if the conditions for such can be met on a voluntary basis.

CREDITS: 3 credits

CONTACT HOURS: 45 hours

LANGUAGE OF INSTRUCTION: English

PREREQUISITES: A course in economics, especially macroeconomics, is required. Introductory courses in finance, accounting and corporate finance would be advantageous.

METHOD OF PRESENTATION:

- Lectures, which will incorporate class discussion, small cases and numerical calculation (where relevant)
- Group presentations
- External visit – an excursion to the Dorotheum Vienna, the world’s oldest auction house, including written evaluations of benefit

REQUIRED WORK AND FORM OF ASSESSMENT:

- Midterm Exam (written) - 30%
- Final Exam (written) - 30%
- Quizzes - 10%
- Active participation in class discussions - 10%
- Group project including written and oral presentation - 20%

Group Project and Presentations

Group projects on topics of current interest, related to the curriculum, will be conducted. Each group (about 3 students) will research a given topic, produce a written report of 3,000 to 3,750 words, as well as an executive summary for members of the class, present the topic in class and lead a discussion and Q&A session on the topic.

Midterm and Final Exams

All exams are closed book and closed notes examinations.

Midterm and Final examinations are of 2 hours duration in each case. They will consist of short questions (multiple choice/quiz questions/concept checks) as well as in-depth essay questions. The final examination will cover the content of the entire course.

Students will be required to read about 70 - 100 pages of text, on average, each week.

Quizzes

Single Choice quizzes: out of four possible answers one is to be chosen.

Course Participation & Discussions

After inputs by the lecturer students are encouraged to deepen and check their understanding by asking questions, working on small cases and participate in discussions (of actual topics).

LEARNING OUTCOMES:

By the end of the course students will be able to:

- Define the role of asset markets, especially the money market, in the economy.
- Identify central banks and reasons for monetary policy, both in the USA and the Eurozone, and contrast their objectives and operations.
- Explain how exchange rates are determined and the reasons why different exchange-rate systems have come into being as a response to particular problems.
- Discuss European integration from a historical/economic perspective and view current problems against this backdrop.
- Demonstrate an understanding of the role of the banking system.

ATTENDANCE POLICY:

IES Vienna requires attendance at all class sessions, including field study excursions, internship meetings, scheduled rehearsals, and all tests and exams. Attendance will be taken for every class. If a student misses more than two classes without an excuse, the final grade will be reduced by one-third of a letter grade (for example, A- to B+) for every additional unexcused absence.

Excused absences are permitted only when:

- 1) a student is ill (health issues),
- 2) when class is held on a recognized religious holiday traditionally observed by the particular student, or
- 3) in the case of a grave incident affecting family members;
- 4) Exceptions may be made for conflicting academic commitments, but only in writing and only well in advance of missed class time.

Please refer to IES Vienna Attendance Policy for details on how to get your absences excused.

CONTENT:

Week	Content	Assignments
Part I	<u>ASSET MARKETS</u>	
Week 1	An introduction to asset markets 1. Role of assets in the economy 2. Asset classification 3. Portfolio approach to asset demand	• Bodie, Kane and Marcus. <u>Investments</u>, 2014, Ch. 1 • Cassidy. <u>Understanding Money and Interest: The Nature and Role of Money in the Economy</u>. 1999, Ch. 1 • Levy and Post. <u>Investments</u>, 2005, Ch. 3

	4. Related terminology and concepts Money – A special asset 1. Functions of money and its macroeconomic importance 2. Money demand 3. Supply of money 4. Balance sheet measurement of the money supply	
Week 2	Monetary policy in the USA and the European Union 1. How the central bank can change the monetary base / bank reserves 2. The Federal Reserve System and monetary policy in the USA 3. The European System of Central Banks and monetary policy in the Eurozone	• Mishkin. <u>The Economics of Money, Banking and Financial Markets</u>, 2013, Chs. 2 + 15 • Cassidy. <u>Understanding Money and Interest: The Nature and Role of Money in the Economy</u>, 1999, Chs. 2 + 3
Week 3	Interest rates 1. Real or nominal rates? 2. Measurement issues – the “true” rate 3. Interest rates and risk 4. The yield curve	• Bodie, Kane and Marcus. <u>Investments</u>, 2014, Ch. 15 • Mishkin. <u>The Economics of Money, Banking and Financial Markets</u>, 2013, Chs. 6 and 16 + 17 Quiz 1
Week 4	Capital Markets I: Equity markets 1. Features of stocks 2. Stock valuation: dividend discount model & applications 3. International stock markets	• Bodie, Kane and Marcus. <u>Investments</u>, 2014, Ch. 2.3 + 2.4 • Berk, DeMarzo. <u>Corporate Finance</u>, 2013, Ch. 9.1 + 9.2 • Ross, Westerfield and Jordan. <u>Fundamentals of Corporate Finance</u>, 2015, Ch. 8 • Eun and Resnick. <u>International Financial Management</u>, 2015, Ch. 13 • Valdez and Molyneux. <u>An Introduction to Global Financial Markets</u>, 2012, Ch. 7 • Madura. <u>International Financial Management</u>, 2010, Ch. 3
Week 5	Capital Markets II: Bonds and Derivatives 1. Bonds - Features of bonds/ Types of bonds a. Interest rates and bond valuation 2. Derivatives - Forwards, Futures, Options, Swaps a. Hedging with derivatives (examples)	• Bodie, Kane and Marcus. <u>Investments</u>, 2014, Ch. 2.2 + 2.5 and Ch. 14.1 + 14.5 • Eun and Resnick. <u>International Financial Management</u>, 2015, Ch. 12 • Levy and Post. <u>Investments</u>, 2005, Ch. 19 • Madura. <u>International Financial Management</u>, 2010, Ch. 3 • Ross, Westerfield and Jordan. <u>Fundamentals of Corporate Finance</u>, 2015, Ch. 7

	Midterm Exam	Valdez and Molyneux. <u>An Introduction to Global Financial Markets</u>, 2012, Ch. 6
Part II: Week 6	<u>STRUCTURE AND ESSENCE OF INTERNATIONAL BANKING</u> International Banking: Commercial Banks and Investment Banks - Nine common types of banks - The central bank – specialised role of a state agency Commercial banks – wholesale and retail: essential characteristics and issues - Investment banks – essential characteristics and issues - International banking and financial markets	- Valdez and Molyneux. <u>An Introduction to Global Financial Markets</u>, 2012, Chs. 2 + 3 + 4 + 5 - Hull, <u>Risk Management and Financial Institutions</u>, 2015, Ch. 2 - Eun and Resnick. <u>International Financial Management</u>, 2015, Ch. 6
Week 7	Essential Business of Banking - Funding - Capital - Banking book and trading book - Financial statements and ratios - Key considerations	Choudhry. <u>Principles of Banking</u>, 2012, Ch. Quiz 2
Week 8	Risks in Banking and International Risk Management - Main risks in banking and ALM - Management of international risks: Basel Accords (2.5 and 3.0)	- Choudhry. <u>Principles of Banking</u>, 2012, Ch. 1 + 6 - Hull, <u>Risk Management and Financial Institutions</u>, 2015, Ch. 2 - Mishkin. <u>The Economics of Money, Banking and Financial Markets</u>, 2013, Chs. 11 + 12
Part III Week 9	<u>THE INTERNATIONAL FINANCIAL SYSTEM</u> The Determination of the Exchange Rate - Exchange-rate determination - Exchange-rate equilibrium – some parity conditions - Real <i>versus</i> nominal exchange rates: which matters, and why?	- Shapiro. <u>Multinational Financial Management</u>, 2010, Ch. 2.1 + 2.2 + 2.4 + 4 - Madura. <u>International Financial Management</u>, 2010, Chs. 4 + 8

	4. Exchange-rate regimes (especially Bretton Woods) and the IMF classification	
Week 10	Forms of Economic Integration and Monetary Union in Europe 1. Forms of economic integration 2. The road to integration and the drivers of integration in Europe 3. Real <i>versus</i> nominal convergence in a monetary union 4. Does economic integration produce a tangible benefit?	• Shapiro. <u>Multinational Financial Management</u>, 2010, Ch. 3.
Week 11		
Week 12	Final Exam	

COURSE-RELATED TRIPS:

Excursion to the Dorotheum, Vienna on November, 21st 2018

REQUIRED READINGS:

- Bodie, Kane and Marcus. Investments (10th Ed) McGraw-Hill, 2014.
- Berk, DeMarzo. Corporate Finance (3rd Global Ed), Pearson, 2013.
- Cassidy. Understanding Money and Interest: The Nature and Role of Money in the Economy. Vienna: Management Book Service, 1999.
- Choudhry. Principles of Banking, Wiley Finance, 2012.
- Eun and Resnick. International Financial Management (7th Ed), McGraw-Hill, 2015.
- Hull, Risk Management and Financial Institutions, Wiley Finance, 2015.
- Levy and Post. Investments, FT-Prentice Hall, 2005.
- Madura. International Financial Management (10th Ed), South-Western, Cengage Learning, 2010.
- Mishkin. The Economics of Money, Banking and Financial Markets, (10th Ed) Pearson, 2013.
- Ross, Westerfield and Jordan. Fundamentals of Corporate Finance, (11th Ed) McGraw-Hill/Irwin, 2015.
- Shapiro. Multinational Financial Management (9th Ed), John Wiley and Sons, 2010.
- Valdez and Molyneux. An Introduction to Global Financial Markets (6th Ed), Palgrave Macmillan, 2012.

ADDITIONAL READINGS:

- Admati, Anat, Hellwig, Martin: The Bankers' New Clothes: What's Wrong with Banking and What to Do about it. Princeton 2014
- Desai, Mehir: The Wisdom of Finance. London 2017.
- Eichengreen, Barry: Hall of Mirrors: The Great Depression, The Great Recession, and the Uses-and Misuses-of History. Oxford University Press 2015.
- Kay, John: Other People's Money: Masters of the Universe of Servants of the People. London 2015.

- King, Mervin: End of Alchemy. Money, Banking and the Future of the Global Economy. Norton & Norton, New York et al. 2016.
- Stocker, Ferry: Zahltag: Finanz-, Schulden- und Wirtschaftskrise und ökonomische Prinzipien. 3rd ed. Vienna 2015.