



EC/FI358 FINANCIAL MARKERS AND THE ECONOMY

IES Abroad Rome

DESCRIPTION:

This course aims to deepen students' understanding of the functions of financial markets and their critical interplay with the real economy. It offers an in-depth understanding of various financial instruments and their purpose, the elements of security pricing, and the roles of pivotal institutions in these markets.

The course also examines governmental policies affecting financial markets and addresses structural weaknesses within the financial system that lead to instability and market failures. Moreover, the course highlights the critical role of an efficient financial system in modern economies, incorporating case studies and recent events from the UK (for example, Brexit's implications) to demonstrate practical applications in the real world. Comparison will be made with the Eurozone and the USA, where necessary.

The course covers the complexities of globalized money markets, including foreign exchange and Eurocurrency markets, while highlighting the significance of domestic market instruments in the context of monetary policy and economic stabilization.

The intricate world of capital markets is also explored, focusing on the financing needs of corporations and governments, the impact of innovative financial activities from junk bonds to more recent innovations in securitization, and the role of credit derivatives in recent financial crises. This detailed exploration gives students a rich understanding of financial markets and their fundamental role in shaping the economy.

CREDITS: 3 credits

CONTACT HOURS: 45 hours

LANGUAGE OF INSTRUCTION: English

PREREQUISITES: A course in economics, especially macroeconomics, is essential and courses in finance, accounting and/or corporate finance would be advantageous

ADDITIONAL COST: N/A

METHOD OF PRESENTATION:

- Lectures, which will incorporate class discussion
- Group presentations (case study on banking crisis or public debt crisis))
- Field Study

REQUIRED WORK AND FORM OF ASSESSMENT:

- Course Participation - 10%
- Quizzes x2 – 20%
- Midterm Exam – 20%
- Final Exam – 30%
- Group work and presentation - 20%

Course Participation & Discussions

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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).

Quizzes

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

Exam

Made up of single choice-questions and problem cases, including some calculations.

Final Exam

Made up of single choice-questions and problem cases, including some calculations.

Group Work & Presentations

The research paper to be presented and discussed in class has to fulfill the scientific requirements as regards chosen methods, covered topic, style and formal aspects. It is a short paper based on a topic (see course structure Week 10), based on materials mainly provided by the lecturer and aiming at deepening the understanding of the topics covered in class or to approaching them from a different perspective.

Course Element

For each week of the course, there is a designated recommended reading assignment. Alongside these, supplementary reading materials that extend beyond the scope of our lectures are provided. In the 'additional reading' section (referenced below), you will find some books and articles that offer narrative accounts of various recent events and developments instead of textbooks' more theoretical approach. Considering the already substantial amount of course reading required, the additional readings will be kept to a moderate level. The course also includes a group project involving the analysis of a case study and presenting the findings. This presentation should be accompanied by a written summary to be handed out. Additionally, there will be quizzes and exams to assess your understanding of the course material:

LEARNING OUTCOMES:

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

- Understand the role of the financial system in the domestic and global economies, with particular emphasis on the UK, and on the changes and challenges introduced by Brexit. The Eurozone and USA will be used for comparative purposes, where appropriate.
- Understand the reasons for recurring financial and economic crises: In particular, how national governments do not comply with the constraints of globalization.
- Discuss the main instruments traded on financial markets, along with the roles of the principal markets, which are frequently discussed in the financial press.
- Discuss current trends and developments in the international financial system (e.g. exchange-rate regimes, globalization and economic integration, trade liberalization etc.) from a historical perspective.
- Evaluate the arguments of interest groups and culturally accepted prejudices concerning deregulation and free markets.

ATTENDANCE POLICY:

Regular class attendance is mandatory. Irregular attendance may result in a lower grade in the course, and/or disciplinary action. The IES Abroad Rome class attendance policy does not allow for unexcused absences, and grades will be docked one-half letter grade for each such absence. Rare exceptions will be made for the following reasons:

- The student is too sick to attend class. In this instance, the student must call the IES Abroad Centre before class to notify any of the IES Abroad staff. It is not sufficient either to email, send a message with a friend or call the Centre after the class has started.
- A serious illness or death in the immediate family requiring a student to travel home. This requires written approval from the Centre Director before departure.

Arriving more than 10 minutes late to class may count as an unexcused absence. Immigration laws in the UK are extremely strict, and we jeopardize our legal status in hosting students who do not regularly attend class. Students who do not attend class regularly will be reported to the appropriate officials and risk dismissal from the program and deportation from the UK. If a student incurs absences representing 25% of the total class hours, they will be contacted by the Academic Programme Manager (APM) and Centre Director (CD). If these absences are made up exclusively of unexcused non-attendance, this will trigger a disciplinary review. If these absences are made up of excused non-attendance, a meeting will be held to discuss the underlying reasons for lack of attendance, and to discuss ways it can be maintained for the duration of the term. If the 25% threshold is reached due to a mixture of excused and unexcused absences, students will also be asked to attend a meeting to discuss.

CONTENT:

Week	Content	Assignments
Week 1	Overview of Financial System ○ Financial system and the real economy ○ Key concepts (liquidity, leverage, negotiability etc.) ○ Financial intermediation between sectors (and other functions) ○ Types of markets (direct and indirect markets etc.) ○ Sectoral flows-of-funds	• Saunders et al. (2021): Ch. 1 (Page 1 to page 9) Supplementary: • De Haan et al. (2020): Ch. 1 • Mishkin & Eakins (2018): Chs. 1 and 2

Week 2	Structure of the Economy ○ Aggregate supply-aggregate demand (ASAD) model of the economy ○ Balance of payments ○ The economy of the UK, Eurozone and U.S. ○ The economy of the UK and the Eurozone following Brexit	• Saunders et al. (2021): Ch. 4 (page 131 to 132) Supplementary: • De Haan et al. (2020): Ch. 13 • Mankiw(2021) : Ch. 9 (page 241 – 255) • ECB Ch. 2 (pp. 30 – 55)
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Week	Content	Assignments
Week 3	The Special Role of Interest Rates ○ Yield curves – spot and forward ○ Theories of interest rate/yield curves ○ The term structure of interest rates ○ Economic importance of yield curves and term structure theories ○ Monetary policy and the yield curve	• Saunders et al. (2021): Ch. 2 (page 27 to 53) Supplementary: • De Haan et al. (2020): Ch. 5 • Mishkin & Eakins (2018): Chs. 4 and 6
Week 4	Money Markets and Banking ○ Money-market instruments (purpose, pricing) ○ Eurocurrency markets (origins, purpose, pricing, LIBOR, EURIBOR) ○ Banks v. non-banks ○ Bank balance sheets ○ Banking book and trading book ○ Asset-Liability (A/L) management	• Saunders et al. (2021): Ch. 5 (page 135-168) and Ch.11 (page 355 to 368). Supplementary: • De Haan et al. (2020): Chs. 5 and 10 • Arnold (2012): Ch. 9

Week 5	Monetary Policy in the UK (contrast with Eurozone and USA) ○ The market for bank reserves ○ High-powered money, credit creation and the money multiplier ○ Instruments/tools of monetary policy ○ Eurozone – reserve auctions, reverse transactions ○ USA – federal funds market ○ Federal funds rate v. EONIA	• Saunders et al. (2021): Ch. 4 (page 95 to 125) Supplementary: • De Haan et al. (2020): Ch. 4 • ECB Ch. 4 (pp. 93 – 116)
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Week	Content	Assignments
Week 6	The International Financial System ○ The currency markets ○ Exchange rates and exchange-rate regimes ○ The foreign exchange market ○ Problems (balance of payments – stability – persistent imbalances and crisis)	• Saunders et al. (2021): Ch. 9 (page 284 to 308) Supplementary: • De Haan et al. (2020): Ch. 5 • Arnold (2012): Ch. 16
	Midterm Week	
Week 7	The Stock Market and Financing of Corporations ○ Corporate investment decision criteria ○ The stock market and corporate finance (investment banks and IPOs) ○ Organization of stock exchanges ○ Stock pricing ○ Rational expectations ○ Efficient-markets hypothesis	• Saunders et al. (2021): 8 (page 242 to 274) Supplementary: • De Haan et al. (2020): 10 • Mishkin & Eakins (2018): Ch. 13

Week 8	Bond Markets and Financing Economic Activity ○ Bond pricing/yields; market participants (corporations, governments, foreign sector) ○ Principal features of treasuries and corporate bonds ○ Innovations in the bond market (junk bonds, mortgage bonds, ABS, securitization)	• Saunders et al. (2021): Ch. 3 (page 60 to 82) Supplementary: • De Haan et al. (2020): Ch. 5 • Mishkin & Eakins (2018): Ch. 12
Week	Content	Assignments
Week 9	The Clients of the Financial System and the Need for Regulations ○ Government ○ Corporate sector ○ Household sector ○ Foreign sector ○ Need for regulation (asymmetric information, moral hazard) ○ Financial regulation in the UK ○ Regulatory measures (Basel Accords, banking union)	• Saunders et al. (2021): Ch.1 (page 10 to page 20) Supplementary: • De Haan et al. (2020): Ch. 12 • Arnold (2012): Ch. 18
Week 10	Financial Crisis ○ The characteristics of different types of financial crises ○ The link between sovereign and banking crises ○ Theoretical models of banking crises ○ The pro-cyclicality of the financial system	• Saunders et al. (2021): Ch. 4 (page 100 to 101). Supplementary: • De Haan et al. (2020): Ch. 2

Week 11	Field Study	
Week 12	Case Study (choose only one): An Anatomy of : 1. Banking Crises in Iceland, Ireland and Australia or 2. Public Debt Crisis in Portugal, Italy, Greece, Ireland and Spain. Class presentations on one of the above case study topics.	

REQUIRED READINGS:

- De Haan, J., Schoenmaker, D. and Wiert, P., 2020. Financial markets and institutions: A European perspective (4. Ed). Cambridge University Press.
- Saunders, A., Cornett, M.M. and Erhemjamts, O., 2021. Financial Markets and Institutions ISE (8th Ed). McGraw Hill.
- Mishkin, F. and S. Eakins., 2018. Financial Markets and Institutions (9. Ed.). Pearson Global Edition

RECOMMENDED READINGS:

- Arnold, G., 2012. Modern financial markets and institutions: a practical perspective. Pearson Higher Ed.
- Assaf, R., Gupta, D. and Kumar, R., 2023. The price of war: Effect of the Russia-Ukraine war on the global financial market. The Journal of Economic Asymmetries, 28, p.e00328.
- Blanchard, O., 2020 Macroeconomics (8. Ed). Pearson/Prentice Hall. Global Edition
- Boobier, T., 2020. AI and the Future of Banking. John Wiley & Sons.
- Boubaker, S., Goodell, J.W., Pandey, D.K. and Kumari, V., 2022. Heterogeneous impacts of wars on global equity markets: Evidence from the invasion of Ukraine. Finance Research Letters, 48, p.102934.
- Dalio, R., 2022. Principles for navigating big debt crises. Simon and Schuster.
- Dow, S., 2019. Monetary reform, central banks, and digital currencies. International Journal of Political Economy, 48(2), pp.153-173.
- Dunis, C., Middleton, P.W., Karathanasopolous, A. and Theofilatos, K., 2016. Artificial intelligence in financial markets. London: Palgrave Macmillan.
- Hacioglu, U., 2020. Blockchain economics and financial market innovation. Springer, Switzerland.
- Howells, P. and Bain, K., 2007. Financial markets and institutions. Pearson Education.

- Mankiw, N.G., 2021. Macroeconomics (11. Ed). Worth Publishers, New York.
- Mishkin, F. and S. Eakins., 2018. Financial Markets and Institutions (9. Ed.). Pearson Global Edition.
- Wei, X. and Han, L., 2021. The impact of COVID-19 pandemic on transmission of monetary policy to financial markets. International Review of Financial Analysis, 74, p.101705.