



APPLIES TO ACADEMIC YEAR 2010/2011

## FIN 3510 Financial Markets

### Programme

Bachelor in Finance (2. year)

### Responsible for the course

### Department

### Term

According to study plan

### ECTS Credits

7,5

### Language of instruction

English

### Introduction

The main theme is societies' dependency on capital markets and capital market institutions to facilitate orderly transfers of savings from surplus-spending units ('savers') to deficit-spending units ('borrowers') undertaking real investments. This process allows for a *desynchronization* or separation of income and consumption across time and states of nature. Firms' issuance of debt and equity is rationalized as contributing towards *market completeness* allowing risk-averse investors to diversify among securities with unique, state-dependent payoffs across time.

### Learning outcome

#### Acquired knowledge

Upon completion of the course, students are required to master tasks such as:

- Calculating expected (effective) yields on debt securities and the expected return and riskiness of equity securities' returns
- For given supply and demand of loanable funds, solve for the equilibrium level of interest rates
- For given spot exchange and interest rates, calculate market-clearing forward rates according to international parity theorems
- Calculate Black-Scholes' call and put options prices
- Calculate commercial banks' exposure to changing interest rates

#### Acquired skills

Students, having completed the course, are required to satisfactorily conduct analytical exercises such as:

- Estimating and explaining the impact of loanable funds and interest rate volatility on the market valuation of financial securities
- Estimating and explaining how market valuations of derivative financial securities, such as options and futures contracts, are affected by fluctuating interest rates
- Relating the Black-Scholes' option pricing estimates to the binomial option pricing framework
- Estimating forex exposure and suggesting appropriate hedging contracts
- Relating competitive strategies of commercial banks to general economic conditions

#### Reflection

Topics covered enable students to critically challenge main paradigms of free market economics: *Distributional* efficiency in terms of rent sharing among participants does not follow from *economic* efficiency alone. Nor does informationally efficient markets allocate capital to those projects offering the highest, macro-wide rents. Furthermore; why doesn't economic legislation play a more active role in facilitating informational efficiency in capital markets? Are salaries and bonuses in the financial services industry sustainable; i.e. set according to marginal productivity?

#### Prerequisites

Foundation courses from year one: BØK 3411 Finance and Managerial Accounting I, BØK 3421 Finance and Managerial Accounting II, MET 2910 Mathematics, and MET 2920 Statistics. Or equivalent courses.

#### Compulsory reading

##### Books:

Saunders, Anthony and Marcia Millon Cornett. 2009. Financial markets and institutions. 4th ed. Boston, Mass. : McGraw-Hill/Irwin. 260 pages

## Recommended reading

### Course outline

The course is comprised of three integrated modules:

#### Module 1: Introduction to Financial Markets and Institutions

- Supply and demand for savings: Determination of the general level of interest rates
- Loanable funds, interest rates and security valuation
- Overview of the the banking system

#### Module 2: Major Financial Markets

- The bond market (the trading place for public and corporate debt)
- The stock market (the trading place for corporate equity)
- The derivatives market (the trading place for options and futures)
- The foreign exchange market (the trading place for foreign currencies)

#### Module 3: Financial Institutions

- Commercial Banks
- Securities Firms and Investment Banks
- Mutual Funds and Hedge Funds
- Risk Management by Financial Institutions

### Computer-based tools

Excel spreadsheet models are highly recommended for problem solving. It's learning is used for submitting six mandatory home assignments.

### Learning process and workload

The course is build around lectures, homeassignment problems (reviews conducted in class by the lecturer),and individual reading of assigned chapters from text as well as work on designated end-of-chapter problems. Conduct of lectures and style of teaching assume that students in attendance are familiar with scheduled topics on the syllabus.

#### Recommended workload in hours

Activity	Hours
Class attendance	36
Preparing for class	120
Mandatory home assignments	24
Preparing for the exam	20
<b>Total recommended use of time</b>	<b>200</b>

#### Coursework requirements (Mandatory)

Students are required to electronically submit six (6) home assignments in order to sit for the exam. The home assignments are posted one week before each due date. A passing score is required on five out of the six assignments. In order to obtain a passing score, 50% of the problems must be correctly solved. Two attempts are allowed per assignment. More administrative details will be provided in class. The exam is given by the end of the lectures series.

Feedback on the homeassignment problems is provided in two ways:

1. It's learning sums up and automatically returns to students their overall score upon submission of the answers.
2. A review of the assignment problems is given during the first class-meet following each due date.

#### Use of hours

36 hours - class (lecturing)

9 hours - mandatory homeassignment problems

45 hours total

#### Coursework requirements

In order to sit for the final exam, students are required to electronically submit six (6) home assignments of which (5) must be approved by the lecturer. See Learning process and workload.

#### Examination

A five (5) hour individual written, closed-book exam concludes the course.

#### Examination code(s)

FIN 35101 - Written exam counts for 100% of course grade in FIN 3510 Financial Markets; 7,5 ECTS credits.

**Examination support materials**

Interest tables and BI-defined exam calculator. TEXAS INSTRUMENTS BA II Plus™  
For more information, please visit our web-based Student Handbook at  
<http://www.bi.edu/studenthandbook/examaids>

**Re-sit examination**

A re-sit examination is offered every term.

Students not having obtained a passing score on the mandatory home assignments are required to submit a new series of six home assignments during the next scheduled lectures series. Students failing the exam, or wishing to improve previous grades, may retake the exam on the next scheduled exam date.

**Additional information**