



APPLIES TO ACADEMIC YEAR 2012/2013

## FIN 3510 Financial Markets

### Programme

Bachelor in Finance (2. year)

### Responsible for the course

Knut Sagmo

### Department

Department of Financial Economics

### 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 these real investments. This process allows for a *desynchronization* (or separation of) income and consumption across both time and states of nature. Firms' issuance of debt and equity is rationalized as contributing towards *market completeness* allowing risk-adverse 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:

- In a two-period model, compute firms' optimal levels of real-investments and thus dividends (financial savings) to shareholders.
- Calculating expected (effective) yields on debt securities and the expected return and riskiness of equity securities' returns
- Given spot exchange and interest rates, calculate market-clearing forward rates according to international parity theorems
- Implementation of financial futures for hedging purposes.

#### Acquired skills

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

- Estimating and explaining the impact of interest rate volatility on the market valuation of financial securities and exchange rates
- Estimating and explaining how market valuations of derivative financial securities, such as options and futures contracts, are affected by fluctuating interest rates
- Estimating forex exposure and suggesting appropriate hedging contracts

#### 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 may informationally efficient markets allocate capital to those projects offering the highest, macro-wide rents, necessarily. Furthermore; could and should economic legislation play a more active role in facilitating informational efficiency and fairness in capital markets?

#### 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, Marcia Millon Cornett. 2012. Financial markets and institutions. 5th ed. McGraw-Hill/Irwin. 260 pages. Latest edition to be used in class.

#### Recommended reading

**Books:**

Fabozzi, Frank J., Franco Modigliani and Frank J. Jones. 2009. Foundations of financial markets and institutions. 4th ed. Pearson Education. 250

**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

**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

**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 builds on lectures, home assignment 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 attending class are familiar with the scheduled topic being lectured on.

**Recommended workload in hours**

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

**Coursework requirements (Mandatory)**

During the course there will be given three work assignments. The assignments are distributed electronically on It's Learning and answers to the assignment-problems must be submitted electronically, also. Two of the three assignments must be passed in order to sit for the final exam. Further administrative details are provided in class. The exam is given by the end of the lectures series.

Feedback on the assignment 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 assignment.

**Use of hours**

36 hours - class (lecturing)

9 hours - mandatory work assignment problems

45 hours total

**Coursework requirements**

In order to sit for the final exam, students must get approved a minimum of two out of three work assignments during the course. 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 the 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 following the next ordinary course offering. Students not having obtained a passing score on the mandatory work assignments are required to submit a new series of three 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 conditional upon approval of the work assignments.

**Additional information**