



APPLIES TO ACADEMIC YEAR 2013/2014

FIN 3510 Financial Markets

Programme

Bachelor of Finance (2. year), Exchange Program

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

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. The process allows for *desynchronization* (ie. separation) of income from consumption across time and economic states of nature, as well. Firms' issuance of debt and equity is in this context rationalized as contributing towards *market completeness* allowing risk-averse investors to diversify their holdings of securities with unique, state-dependent payoffs, and thus consumption, across time and economic states.

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 and exchange rate volatility on the market valuation of stocks and bonds
- Estimating and explaining how well-diversified portfolios of financial securities reduce uncertainty regarding future payoffs and thus consumption
- Identifying exposure to foreign exchange rate volatility

Reflection

Topics covered enable students to critically challenge some of the 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. Hence, 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 consists of two 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 and Securities

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

Computer-based tools

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

Learning process and workload

The course consists of 36 lecture hours and 9 hours of instructor-guided, in-class problem-solving. **Conduct of lectures and style of teaching assume that students attending class are familiar with the scheduled topic being lectured on.** Students are recommended to allocate studying hours as follows:

Activity	Hours
Class attendance	36
Preparing for class	120
Home Assignment problems in-class	9
Mandatory Work Assignment problems	15
Preparing for the final examination	20
Total recommended use of time	200

Mandatory coursework requirements

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. **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 work assignment.

Use of hours

36 hours in-class lecturing
9 hours in-class home assignment problems
45 hours total

Coursework requirements

In order to sit for the final exam, approval of minimum two (out of three) work assignments is required. 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