



APPLIES TO ACADEMIC YEAR 2016/2017

FIN 3522 Financial Markets

Programme

Bachelor of Finance (2. year)

Responsible for the course

Dagfinn Rime

Department

Department of Finance

Term

According to study plan

ECTS Credits

7,5

Language of instruction

Norwegian

Introduction

Financial markets are instrumental to the workings of the economy. However, these markets do not exist in a vacuum but evolve from the interactions of market participants within the boundaries of market institutions. The importance of financial markets have grown over time, measured e.g. by volume traded or the share of the total output of the economy. This, together with the recent financial crisis, has brought into light the importance of how financial markets actually work.

The objective of this course is to provide an in-depth introduction to the workings of modern financial markets. There are many different "players" using these markets. On the one hand, corporations, governments, and other institutions use the financial markets to raise funds (i.e. borrow money) for capital investments. On the other hand, these funds are provided by private and institutional investors (by buying securities issued by corporations, or depositing money with banks, etc.) Banks and other financial institutions (e.g. pension or mutual funds, etc.) act as intermediaries between investors and borrowers.

More specifically, the course focuses on the mechanisms by which securities are traded in modern financial markets and the implications of trading mechanisms for the efficiency and liquidity of markets. It covers all major asset classes (money markets, equities, FX and bonds) and treats theoretical work on trading

mechanisms and market outcomes, related empirical work and the application of microstructure analysis to practical trading scenarios. It closes with a focus on some topical issues in trading and market structure.

Learning outcome

Acquired Knowledge

The students will acquire a good understanding of how different financial markets work, who are the most active market participants, and how market participants use different financial instruments. More specifically the students will develop their understanding with respect to the following topics:

- Understand market structures and their impact on price efficiency and liquidity
- Understand risks associated with trading, and how actual trading is conducted.
- Understand adverse selection risk, illiquidity risk, etc.
- Understand challenges for regulation of markets

Acquired Skills

The students will acquire skills that prepare them work which would involve trading, portfolio management or trade quality evaluation or for graduate work in this area. More specifically:

- Know the role of some specific market participants and institutions
- Know how to trade different financial instruments
- Be able to collect necessary financial data

Reflection

The course will build on other, more theoretical courses, and aim to make the theory relevant in a practical setting. This will enable the student to operate in actual financial markets, e.g. in role as trader, asset manager or analyst.

Prerequisites

BØK 3423 Finance or equivalent.

Compulsory reading

Books:

Anthony Saunders / Marcia Millon Cornett. 2015. Financial Markets and Institutions. 6. McGraw-Hill
Bodie, Zvi, Alex Kane, Alan J. Marcus. 2014. Investments. 10. McGraw-Hill

Book extract:

2005. The Fisher model with certainty. World Scientific Publishing. Kap. 1, 1-11. Bok-tittel: The Fisher model and financial markets

Articles:

Berk, Jonathan B. 2005. Five myths of active portfolio management. Journal of portfolio management. Spring. 27-31

Brunnermeier, Markus. 2009. Deciphering the Liquidity and Credit Crunch 2007–2008. Journal of Economic Perspectives. 1. 77-100

Sharpe, William F.. 1991. The Arithmetic of Active Management. Financial Analysts Journal. Jan-Feb. 7-9

Other:

Lecture notes, cases, additional exercises and examples will be available on the course-website on itslearning.

List of papers will be necessary because the books are too non-technical.

Markus K. Brunnermeier, Isabel Schnabel. 2015. Bubbles and Central Banks: Historical Perspectives

Recommended reading

Books:

Harris, Larry. 2002. Trading and exchanges : market microstructure for practitioners. Oxford University Press
Mishkin, Frederic S. Stanley G. Eakins. 2015. Financial markets and institutions. 8th ed., Global ed. Pearson

Course outline

1. Introduction to financial markets: Fundamental principles of finance
2. The financial system
3. Market participants: Governments, firms, funds, asset managers, banks, central banks, regulators, etc.
4. Intertemporal consumption (Fisher model)
5. Interest rates: Loanable funds equilibrium
6. Financial markets: Instruments, Primary vs. Secondary markets
7. Delegated portfolio management. Active vs. passive investment
8. Generic market structures (secondary markets)
9. Market prices/Market liquidity

- 10. Financial crises
- 11. Issues and controversies in financial markets: algorithmic trading; transparency; regulation; fragmentation

Computer-based tools

Spreadsheets (Excel) will be used for certain practical applications and examples. It is recommended that students become familiar with their use. It will be explained how to use the Bloomberg terminal to collect and analyse financial data. The OANDA-trading platform will be utilized for familiarizing students with actual trading.

Learning process and workload

The course will include a combination of lectures and presentations of actual events. Specific information regarding any aspect of student evaluation will be provided in class. It is the student's responsibility to obtain this information. Please note that whilst attendance is not compulsory, it is the students responsibility to obtain any information provided in class that is not included on the course homepage/It's learning or in the text book. Homepages and/or itslearning are not designed for the purpose of students who choose not to attend class.

The following is an indication of the time required:

Activity	Hours
Lectures	36
Bloomberg sessions	6
Preparation for lectures and plenary tutorials	83
Preparation of class work	30
Preparation for the final exam	45
Total recommended use of time	200

Use of hours

Use of hours (instructor)

The lectures will be plenary sessions whereas for the Bloomberg sessions will be done in different sections of maximum 40 students each. The Bloomberg room has 10 workstations and there will be up to 4 students on each workstation. Therefore, depending on the number of students registered for the course there will be formed n computer sections. For example if 150 students are registered then there will be 4 sections of around 37 students each.

- 36 hours – Lectures
- 6×n hours – Bloomberg sessions
- 3 hours – Coordination of learning activities
- 39 + 6×n hours – Total

OBS! (fra Programrådet Bachelor)

Bloomberg terminalrom har 10 maskiner. Forventet klassestørrelse på Bachelorstudiet i finans, 2. år er ca 70 studenter.

Med en klassestørrelse på 70 studenter og tre studenter pr. maskin, vil det kreves tre gjennomføringer av 2-timersøkten i Bloombergrommet. Det vil si at den totale ressursbruken vil kunne ende på 4 timer mer enn normen på 45 timer.

Examination

Process evaluation, this is a course with assessment (several exam components) and one final exam code. Each exam component is graded by using points on a scale from 0-100. The components will be weighted together according to the information below in order to calculate the final letter grade for the examination code (course). Students who fail to participate in one/some/all exam elements will get a lower grade or may fail the course.

- The final grade in the course will be based on the following components and weightings:
- Two mandatory home assignments, one counting 20% and one counting 10% (total 30%)
 - 3-hour written final exam. (70%)

Specific information regarding student evaluation beyond the information given in the course description will be provided in class.

Examination code(s)

FIN 35221 - Process evaluation, counts for 100% of course grade in FIN 3522 Financial Markets 7,5 ECTS credits.

Examination support materials

BI approved exam calculator. Examination support materials at written examinations are explained under examination information in the student portal @bi. Please note use of calculator and dictionary in the section on

support materials (https://at.bi.no/EN/Pages/Exa_Hjelpemidler-til-eksamen.aspx).

Re-sit examination

Re-sit examination is offered at the next scheduled course.

At re-sit it will be required that the entire evaluation process is conducted again, and that students who do not achieve points in one or more exam components will get a lower grade or fail the course. Previously conducted examination components will not be part of the assessment for a new grade.

Additional information