

FINA 4000 (Fall 2007) Steuer
Money and Capital Markets (3 hours)
Course Syllabus

Instructor

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Office Hours

Other than for quiz or exam days, Mondays and Wednesdays 11:00-12:00noon, any time my door is open, or by appointment.

Course Catalog Description

The operations and functions of domestic and international finance markets and institutions. The determinants of bond prices and the level and structure of interest rates. Techniques for measuring and managing risk in financial markets.

Learning Objectives

To understand the importance of a financial system and its institutions and markets to an economy, with special emphases on the importance of a nation's central bank, monetary policy, interest rates, commercial banking, and how financial institutions manage risk.

Prerequisites

FINA 3000 Financial Management
MSIT 3000 Statistical Analysis for Business (or STAT 3000)

Course Requirements

Attendance will be taken fairly regularly and will be part of your final grade. To be considered for missing a class for reasons outside your control, you must send me an email in advance or at the time of the missed class outlining the circumstances. You are responsible for all material, announcements, assignments, presentations, quizzes, and exams given in class. Students are expected to have all readings and assignments completed before class. Problems from the text will be assigned but not graded.

Required Texts

Kidwell, D.S., D.W. Blackwell, D.A. Whidbee and R.L. Peterson. (2006).
Financial Institutions, Markets, and Money (9th Edition), ISBN 0-471-69757-5, John Wiley & Sons.

Supplementary Readings

Daily reading of the Money & Investing section of **The Wall Street Journal** is recommended.

Topical Outline

1. An Overview of Financial Markets and Institutions
 - Surplus and deficit spending units
 - Financial claims
 - Direct and indirect financing
 - Changes in balance sheets as a result of financial intermediations
 - Intermediation services
 - Types of financial intermediaries and instruments
 - Money markets vs. capital markets
 - Book Chapter 1
2. The Federal Reserve System and Its Powers
 - History of the Federal Reserve System
 - Structure of the Federal Reserve System
 - Federal Open Market Committee
 - Regulatory powers
 - Fed balance sheet
 - Discount window
 - How changes in reserve requirements affect the money supply
 - Book Chapter 2
3. The Fed and Interest Rates
 - Money supply measures
 - Excess reserves and the fed funds rate
 - Supply-demand graphs and the equilibrium interest rate
 - Importance of the fed funds rate
 - Objectives of monetary policy
 - Stability of the financial system
 - Book Chapter 3
4. Comments about Foreign Central Banks
 - European Central Bank
 - Other foreign central banks
5. How Interest Rates Are Determined
 - Loanable funds theory of interest
 - Fisher equation and inflation effects
 - Difficulties in forecasting interest rates
 - Book Chapters 4
6. Bond Prices and Interest Rate Risk
 - Formulas
 - Par, premium, and discount bonds
 - Reinvestment risk and different yield measures
 - Bond price volatility, convexity, and duration
 - Book Chapters 5
7. Term Structure of Interest Rates

- Term structure formula
 - Expectation, market segmentation, and preferred-habitat theories
 - Effect of yield curves on financial intermediaries
 - Default risk and bond ratings
 - Tax treatments
 - Book Chapter 6
8. Money Markets
- Treasury-bill pricing and auction mechanics
 - Federal agency debt
 - Repo transaction mechanics
 - Commercial paper, negotiable CDs, and banker's acceptances
 - Book Chapter 7
9. Bond and Mortgage Markets
- Bond market instruments
 - After-tax yields
 - Secondary markets for bonds
 - Tranches
 - Fixed vs. adjustable rate mortgages
 - Pass-through securities
 - Book Chapters 8, 9
10. Current Events
- Options backdating
 - Student loan scandal
 - Subprime loan situation
 - Income tax rate controversy for hedge fund managers
 - Maybe one more topic to be announced
11. Commercial Bank Operations
- Sources and uses of bank funds
 - Base-rate loan pricing
 - Financing international trade
 - Correspondent banking and trust departments
 - Off-balance sheet items
 - Bank profitability and the management of interest-rate, liquidity and credit risks
 - From parts of Chapters 12, 13, 14

Quiz and Exam Schedule

- Quiz I (Wednesday September 12)
- 1st Mid-Term (Wednesday September 19)
- Quiz II (Wednesday October 17)
- 2nd Mid-Term (Wednesday October 24)
- Quiz III (Friday November 30)
- Final (as per University Final Exam Schedule)

Grade Determination

- 1st Mid-Term 150 points

2nd Mid-Term 150 points

Quizzes 150 points

Attendance 100 points

Final Exam 200 points

There may be a project in the 50-100 point range, in which case the total would be increased accordingly.

Academic Honesty

All academic work must meet the standards contained in "A Culture of Honesty."

All students are responsible to inform themselves about those standards before performing any academic work.

Course Homepage

Please bookmark www.terry.uga.edu/~rsteuer/4000 and check the homepage frequently for updates and blinking or scrolling announcements.

Note

The course syllabus is a general plan for the course; deviations announced to the class may be necessary.