

FINA 4000 (Fall 2009) Steuer
Money and Capital Markets (3 hours)
Course Syllabus

Instructor

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Office Hours

No office hours on quiz or exam days. Otherwise, Mondays and Wednesdays 11:10am to 12:10pm, 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 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. You start with 100 points. You lose 5 points each time attendance is taken and you are not there. 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.

Policy on Missed Quizzes or Exams

If you miss a quiz or an exam, you will take a score 5 points lower than lowest score of anyone who sat for the quiz or exam. However, it is always best to contact me immediately.

Required Text

Kidwell, D.S., D.W. Blackwell, D.A. Whidbee and R.L. Peterson. (2008). **Financial Institutions, Markets, and Money** (10th Edition), ISBN 13: 978-047-017161-5, John Wiley & Sons.

Supplementary Readings

Daily reading of **The Financial Times**, Business Section of the **New York Times**, or Money & Investing section of **The Wall Street Journal** is advised.

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 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. The Level of Interest Rates
 - Loanable funds theory of interest
 - Fisher equation and inflation effects
 - Difficulties in forecasting interest rates
 - Book Chapter 4
6. Bond Prices and Interest Rate Risk
 - Formulas
 - Par, premium, and discount bonds
 - Reinvestment risk and different yield measures
 - Bond price volatility, convexity, duration
 - Book Chapter 5

7. The Structure of Interest Rates
 - Term structure formula
 - Expectation, market segmentation, 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, banker's acceptances
 - Book Chapter 7

9. Bond and Mortgage Markets
 - Bond market instruments
 - After-tax yields
 - Secondary markets for bonds
 - Fixed vs. adjustable rate mortgages
 - Pass-through securities
 - Tranches
 - Book Chapters 8, 9

10. Possible Special Topics if Time Allows
 - Student loans
 - Fiduciary responsibilities
 - Islamic banking
 - Capital injections
 - Maybe others 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 exposures
 - Bank profitability and the management of interest-rate, liquidity, credit risks
 - From parts of Chapters 12, 13, 14

Quiz and Exam Schedule

Quiz I (Wednesday September 16 or 23)
1st Mid-Term (Wednesday September 30)
Quiz II (Wednesday October 28)
2nd Mid-Term (Wednesday November 4)
Quiz III (Wednesday December 2)
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 some other activity in the 10-50 point range, in which case the total would be increased accordingly.

Academic Honesty

As a University of Georgia student, you have agreed to abide by the University's academic honesty policy, "A Culture of Honesty," and the Student Honor Code. All academic work must meet the standards described in "A Culture of Honesty" found at www.uga.edu/honesty. Lack of knowledge of the academic honesty policy is not a reasonable explanation for a violation. Questions related to course assignments and the academic honesty policy should be directed to the instructor.

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 by the instructor may be necessary.

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Last Reviewed August 12, 2009