



UNIVERSITÀ BOCCONI  
DEGREE IN BUSINESS ADMINISTRATION (CLEA)  
ACADEMIC YEAR 2007-2008

5011: FINANCIAL MARKETS AND INSTITUTIONS

**Class: N38**

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**Course description and contents:**

Financial markets play three key roles in the economy. First, they are the link between the agents that save and those that invest. They are also used to transfer risks among individuals and firms, and to provide liquidity. Connections among investors are typically not made directly in the financial markets. Financial intermediaries, such as banks or mutual funds, provide these connections instead.

The main objective of this course is to provide the participants with a proper understanding of the different functions performed by financial markets and institutions within the financial system. We start by giving a brief overview of the functions of the financial system and its connections to the real economy. We then study the functioning of financial markets and the main financial instruments. Finally, we describe the role of the different types of financial intermediaries.

**Textbook**

F. S. MISHKIN, S. G. EAKINS, Financial Markets & Institutions, Pearson Education, 2005, Fifth Edition. [Henceforth, M-E]

Although the Mishkin & Eakins and the material on the web-learning site should be sufficient, you may like to look at the following book for derivatives.

- Hull, J.C., Options, Futures, and Other Derivatives, Prentice Hall (6<sup>th</sup> Ed.).  
Chapters: 7, 10, 11, 21.

Notice that the Hull book is advanced with respect to our program.

## Prerequisites

We will assume that you are familiar with the material covered in the course in Financial Mathematics.

## Exam Policy

You can choose between the following two options:

1. Two written exams, one *midterm* exam (i.e. midway through the course) and one *final* exam (i.e. at the end of the course). Each 60-minute exam consists of two questions (including two sub-questions each) and one exercise. The final grade is based on the arithmetic average of the two grades. A minimum of 17 for each of the two exams is required. The average will be rounded to the next integer (e.g., 21.5 would become 22).
2. A single *general* written exam based on the material covered during the whole course. The general exam consists of two questions (including two sub-questions each) and one exercise. The general exam lasts 60 minutes.

## Rules at Exam

At the exam you can only have some pens, one calculator and your student card.

This means:

- No books and notes are allowed even if you do not intend to use them.
- No mobile phones are allowed on the table (you should have a watch/clock).
- No pencil case.

Moreover, if we believe the calculator is not necessary for the exam, we will ask you to remove the calculator from the table.

No talks are allowed.

We assume students agreed with these rules when they enter the room.

## Exam Dates

Same as the other classes of the course 5011

## Course Schedule

17 September – 18 December; Mondays 16:15 – 17:45, Tuesdays 10:30-12:00

All lectures will take place in room N38.

## Lectures Schedule

1	17.09	IH*	Introduction. Overview of the Financial System. Role of Financial Markets and Institutions.	M-E: Ch. 1 -2.
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### Fundamentals

2	18.09	IH	Understanding Interest Rates	M-E: Ch. 3-4
3	24.09	IH	The Central Bank and the Conduct of the Monetary Policy	M-E: Ch. 7-8

### Financial markets

4	25.09	IH	The Money Market	M-E: Ch. 9
5	01.10	IH	The Bond Market	M-E: Ch. 10
6	02.10	IH	The Stock Market	M-E: Ch. 11
7	08.10	IH	Stock Valuation and the Efficient Market Hypothesis	M-E: Ch. 6&11
8	09.10	IH	The Foreign Exchange Market: Settings	M-E: Ch. 13
9	15.10	IH	The Foreign Exchange Market: Instruments	M-E: Ch. 14

### Financial Institutions: Economics and Management

10	16.10	EG*	Why Financial Institutions exist; Financial Structure of the Firm	M-E: Ch. 15
11	22.10	EG	The Financial Statement of a Commercial Bank	M-E: Ch. 17
12	23.10	EG	Banking and the Management of Financial Institutions	M-E: Ch. 17

**[Partial Exam: Program covers lectures 1 to 12]**

### Financial Institutions: Economics and Management (continued)

13	12.11	EG	Risk Management in Financial Institutions	M-E: Ch. 24
14	13.11	EG	Risk Management in Financial Institutions	M-E: Ch. 24
15	19.11	EG	Banking Regulation	M-E: Ch. 20

### Derivatives Instruments: Markets and Instruments

20	04.12	EG	Introduction to derivatives instruments	M-E: Ch. 25
21	10.12	EG	Forwards and futures	M-E: Ch. 25
22	11.12	IH	Options	M-E: Ch. 25
23	17.12	IH	Interest Rate Swaps	M-E: Ch. 25
24	18.12	IH	Credit Derivatives	M-E: Ch. 25

### Other Financial Institutions

16	20.11	IH	Mutual Funds	M-E: Ch. 21
17	26.11	IH	Insurance companies	M-E: Ch. 22
18	27.11	IH	Investment Banking	M-E: Ch. 23
19	03.12	IH	Finance Firms and Venture Capital Firms	M-E: Ch. 23

\* EG: Prof. Emilia Garcia; IH: Prof. Issam Hallak.