THOMPSON RIVERS UNIVERSITY

Course Outline

Department of Economics
School of Business and Economics

ECON 3100-3
Canadian Financial Markets (3,0,0)

Calendar Description

Students are introduced to money, banking, and the Canadian financial system. Topics include an overview of financial markets, interest rates and the structure of interest rates, the efficiency of financial markets, financial regulation, banks and other financial institutions, financial institutions risk management, the role of the central bank, the money supply, and monetary policy.

Educational Objectives/Outcomes

Upon completing this course, students will be able to:

1. Explain the ways in which various financial assets are priced in the financial markets based on their relative risks.
2. Describe the various sorts of risks for which financial markets demand a premium.
3. Discuss the actors that participate in the financial intermediation including borrowers, lenders, buyers and sellers of assets, and the various financial intermediaries who make the financial markets.
4. Illustrate how the financial markets have developed into what they are today.
5. Summarize how and why society regulates financial institutions and markets, the particulars of Canadian financial regulations, and the possibilities for upcoming changes in this regime.
6. Discuss the functions of central banks and their conduct of monetary policy.
7. Show the similarities and differences of central banking practices in the developed economies.

Prerequisites

ECON 1950

Co-requisites

Texts/Materials

Frederic S. Mishkin and Apostolos Serletis, The Economics of Money, Banking, and Financial

Markets, Third Canadian Edition. Pearson-Addison Wesley, 2008.

Bank of Canada Review on-line publications and other financial publications

Student Evaluation

Assignments/projects	20%
Midterm(s)	40%
Final exam	40%

Course Topics

Part I: Introduction

1. Why Study Money, Banking and Financial Markets?
    - Stock and bond markets, and interest rates
    - Structure of the financial system
    - Banks and other financial system
    - Money and monetary policy

2. An Overview of the Financial System
    - Structure and functions of financial markets
    - Financial market instruments
    - Types of financial intermediaries
    - Regulation of financial system

3. What Is Money?
    - Meaning of money and functions of money
    - Measuring money

Part II: Financial Markets

4. Understanding Interest Rates and their Behaviour
    - Interest rates measurement
    - Interest rates and returns
    - Asset valuation – the present value approach
    - Yield on a discount basis

5. The Behaviour of Interest Rates
    - Determinants of asset demand
    - Supply and demand in the bond market
    - Supply and demand in the money market

6. Risk and Term Structure of Interest Rates
    - Risk structure of interest rate

- Term structure of interest rates

7. The Stock Market, the Theory of Rational Expectations, and the Efficient Markets Hypothesis
    - Price valuation of common stocks
    - One period valuation model
    - Generalized dividend model and the Gordon growth model
    - Price/Earnings valuation method
    - Theory of rational expectation
    - Efficient market hypothesis

Part III: Financial Institutions

8. An Economic Analysis of Financial Structure
    - Influence of financial costs on financial structure
    - Financial intermediaries and financial costs
    - Asymmetric information in financial markets
    - Moral hazard and securities contracts
    - Financial crises and aggregate economic activities

9 Financial Crises and the Subprime Meltdown
    - Factors causing financial problems
    - Asset market effects on balance sheet
    - Deterioration in financial institutions balance sheets
    - Banking crises
    - Increase in uncertainty
    - Increase in interest rates
    - Government fiscal imbalances
    - Dynamics of past Canadian financial crises

10. An Economic Analysis of Financial Regulation
    - Asymmetric information and financial regulation
    - Government safety net
    - Creation and spread of deposit insurance agencies
    - Restrictions on asset holdings
    - Capital requirements
    - Financial supervision: chattering and examination
    - Basel 2 Agreement - an assessment

11. Banking Industry: Structure and Competition
    - Innovations and evolution of banks
    - Responses to demand and supply conditions
    - How Banks circumvent regulations
    - Structure of Canadian chattered banks

- Structure and regulation of near banks

Part IV: Management of Financial Institutions - Nonbank Financial Institutions
- Insurance
- Pensions funds and types
- Finance companies
- Securities market operations
- Organized exchanges
- Mutual funds
- Hedge funds

Part IV: The Management of Financial Institutions - Banking and the Management of Financial Institutions
- Bank's balance sheet
- Basic banking
- Asset and liability management
- Capital adequacy management
- Strategy for managing bank capital
- Managing credit risk
- Managing interest rate risk and gap analysis

Part V: Central Bank and the Conduct of Monetary Policy

14. Structure of Central Banks and the Bank of Canada
- Structure and functions of Central Bank of Canada
- Independence of Central Bank of Canada
- Structure and independence of major central banks (ECB, Federal Reserve and Bank of Japan)
- Functions of the Bank of Canada

15. The Money Supply Process
- Determinants of the money supply
- Money supply model and the money multiplier
- Determinants of money multiplier
- Control of the monetary base

16. Tools of Monetary Policy
- Framework for the monetary policy implementation
- Channel system for setting overnight interest rates
- Bank of Canada's approach to monetary policy
- Federal Reserve and European Central Bank monetary policy tools

17. The Conduct of Monetary Policy: Strategy and Tactics
- European Central Banks monetary policy strategy
- Inflation targeting

- Monetary policy with an implicit nominal anchor
- Tactics choosing the policy instruments

Methods for Prior Learning Assessment and Recognition

As per TRU policy

Attendance Requirements – Include if different from TRU Policy

As per TRU policy

Special Course Activities – Optional

Use of Technology – Optional