This is an introductory course on financial markets and institutions. The course will cover monetary policy and the financial system. The major financial markets and institutions and their interrelationships will be discussed. Topics in central banking and financial stability will be emphasized.

Homeworks and class will include empirical work, to be done in Excel. Bloomberg will also be used in class and will be part of the homeworks.

Textbook: The textbook for the course is “Capital Markets: Institutions, Instruments and Risk Management” by Frank Fabozzi. I will also assign some readings.

Learning Goals: At the conclusion of this course, students should be familiar with different financial markets (bond, mortgage equity etc.) and major types of financial institutions. They should understand the role of central banks and have some historical perspective on the evolution of financial markets. The course also aims to give you the analytical tools to understand finance-related topics in current analysis that you might read about in newspapers such as the Wall Street Journal or the Economist. While the course emphasizes broad principles rather than preparation for specific jobs, it should be helpful in preparing students for job interviews and for jobs in investment analysis or public policy.

Homework: I expect to assign around 6 homeworks during the semester. Late homeworks will not be accepted. The grade on the lowest homework will be dropped. You can collaborate on homeworks but everyone must write up their own solutions. If the TA finds that two people have identical solutions, then both will receive a grade of zero.

Course materials: Slides for projection in class and other course materials are available on the course webpage: http://www.econ.jhu.edu/courses/266

Grades:
• Homework: 20 percent.
• Midterm 1: 20 percent.
• Midterm 2: 20 percent.
• Final: 40 percent.

The overall grade will then be determined from the following table.
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<th>Score</th>
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**Exam Times:**
- Midterm 1: Tuesday October 1, in class.
- Midterm 2: Tuesday October 29, in class.
- Final: Wednesday December 18, 9am-noon.

**Important Points:**
1. There is no senior option in this course.
2. Exams will cover all topics discussed in class. Slides, the book, and past exams are there to help you with studying. But they are not the primary reference. Anything that I discuss in class is fair game, even if it isn’t in the slides or in the book. This includes guest lectures. Anything that is in the readings is also fair game, and questions from the readings WILL be on the exams. Material covered in the book that is not discussed in class will however not be on the exam.
3. Course grades depend on homeworks, midterms and final alone. There is no way of getting “extra credit” or revising a grade from that determined by performance on homeworks and exams.
4. Any request for a regrade of a homework or exam must be submitted in writing within two weeks of the homework or exam being given back.

**Course Outline:**

1. Introduction. History and overview of the financial system (Chapter 1—though this doesn’t have much history—and Chapter 3).
2. Primary versus secondary markets (Chapter 8).
3. Depository Institutions. Maturity transformation and the Diamond-Dybvig model (Chapter 4).
4. Investment Banking. (Chapter 7).
5. Present value and interest rates (Chapters 16 and 17).
6. The money market (Chapter 20).
7. The bond market (Chapters 21-24).
8. The mortgage market (Chapter 25).
9. Securitization (Chapters 11 and 26).
10. The equity market (Chapter 18).
12. Central banking and monetary policy.
14. Financial futures and options markets and other derivatives (Chapters 29-31).
15. Foreign exchange markets and exchange rate regimes (Chapter 32).
16. Large institutional investors, mutual funds, hedge funds, venture capital and private equity (Chapters 5 and 6).