

Financial Markets and Institutions (Econ-180.266)

Fall 2020

Professor: Jonathan Wright

Office: Wyman Hall 584

Phone: 410-516-5728

e-mail: wrightj@jhu.edu

Office Hours: 3pm-4pm Thursdays and by appointment (virtual)

Teaching Assistants:

- Pavel Solis
- e-mail: msolism1@jhu.edu
- Office Hour: Wednesdays 4:30-5:30 (virtual)

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.

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 6 homeworks during the semester. Because of the unusual circumstances, there will be no exam for the course this year. Instead, the homeworks will include essay type questions which will count for the majority of the homework score. As a guideline, essays that reproduce material that is in the slides will earn a grade in the C range. Essays that reproduce material that is in the lectures will earn a grade in the B range. Only essays that go beyond reproducing material that is in the slides and lectures---notably by referencing assigned readings, the book and other materials---have potential to earn a grade in the A range. The grades for the course will depend entirely on the homeworks. Everyone must write up their own homeworks. If two homeworks are identical or the essays have clearly not been written independently, then both will get a grade of zero.

Classroom Climate: I am committed to creating a classroom environment that values the diversity of experiences and perspectives that all students bring. Everyone here has the right to be treated with dignity and respect. I believe fostering an inclusive climate is important because research and my experience show that students who interact with peers who are different from themselves learn new things and experience tangible educational outcomes. Please join me in creating a welcoming and vibrant classroom climate. Note that you should expect to be challenged intellectually by me, the TAs, and your peers, and at times this may feel uncomfortable. Indeed, it can be helpful to be pushed

sometimes in order to learn and grow. But at no time in this learning process should someone be singled out or treated unequally on the basis of any seen or unseen part of their identity. If you ever have concerns in this course about harassment, discrimination, or any unequal treatment, or if you seek accommodations or resources, I invite you to share directly with me or the TAs. I promise that we will take your communication seriously and to seek mutually acceptable resolutions and accommodations. Reporting will never impact your course grade. You may also share concerns with the department chair (Yingyao Hu, yhu@jhu.edu), the Director of Undergraduate Studies (Bruce Hamilton, bruce.hamilton@jhu.edu), the Assistant Dean for Diversity and Inclusion (Darlene Saporu, dsaporu@jhu.edu), or the Office of Institutional Equity (oiie@jhu.edu). In handling reports, people will protect your privacy as much as possible, but faculty and staff are required to officially report information for some cases (e.g. sexual harassment).

Family accommodation policy: You are welcome to bring a family member to class on occasional days when your responsibilities require it (for example, if emergency child care is unavailable, or for health needs of a relative). In fact, you may see my children in class on days when their school is closed. Please be sensitive to the classroom environment, and if your family member becomes uncomfortably disruptive, you may leave the classroom and return as needed

Course materials: Slides for projection in class and other course materials are available on the course webpage: <http://www.econ2.jhu.edu/courses/266>

Important Points:

1. Any request for a regrade of a homework must be submitted in writing within two weeks of the homework being given back.
2. As with all classes this semester, the default grade is S/U. But you can opt in to getting a letter grade.
3. Because of the coronavirus situation, the plans for this course may need to be changed.

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).
11. Market microstructure. Electronic order books. Algorithmic trading (Chapter 19).
12. Central banking and monetary policy.
13. The global financial crisis.

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).