Financial Markets and Institutions (Econ-180.266)  
Fall 2020

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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. Late homeworks will not be accepted. 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.

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