



BUSI4505
GLOBAL FINANCIAL MARKETS & INSTITUTIONS
WINTER 2017

Class time and location:

Monday, 11:35 AM – 2:25 PM

Mackenzie Building 4332

Instructor information:

William Clements

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Mobile Phone

Office:

To be announced

Office Hours: Monday 3:30 PM – 4:30 PM

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Global Financial Markets and Institutions

Comprehensive view of the world's financial markets and institutions. The primary focus will be on the purpose and practice of financial institutions, and the specifics of the financial instruments available to the firm and investor.

Prerequisites

Students enrolling in this course must meet the following prerequisites: BUSI 2505 with a grade of C+ or higher, STAT 2606 and ECON 2009 with a grade of C- or higher in each. The School of Business enforces all prerequisites.

Course Description:

Financial markets and institutions continue to evolve, being driven by the forces of innovation, globalization and deregulation. These forces have: (i) led to the deepening of the integration of financial markets, (ii) improved the efficiency of the operation of global financial markets, and (iii) increased the institutionalization of the financial markets through a shift from the retail investor to domination by financial institutions such as pension funds and commercial banks.

This course examines the various dimensions of the global financial markets in respect of its principal economic function of (i) transferring investible funds between markets and across jurisdictions (ii) providing the mechanism of price determination of financial assets (iii) creating liquidity (iv) reducing the cost of transacting or exchanging of financial assets.

The course also examines the complex organizing and efficiency roles financial institutions play in making financial markets work. The course will further examine the structure of the financial system including the roles of central banks, financial intermediaries, international

financial institutions, financial innovation such as e-finance and the regulation of financial institutions to minimize systemic failures.

A mix of lectures and cases will be used to conduct the course.

Course Objectives

The purpose of this course is to accomplish the following: a) Convey concepts, tools and frameworks fundamental to the understanding of the global financial markets and the institutions that ensure their well-functioning. b) Use real life cases and current market events and issues to illustrate how financial markets and institutions work in the real world for the practicing manager. c) Use real databases necessary to collect data and analyze financial market events.

Learning Outcomes

On successful completion of this course the participant will have mastered the fundamental financial market concepts and techniques, and acquired the skill and ability to apply these techniques to financial problem solving and decision-making in a global financial market context. The skills developed through this course will further the participant's career and understanding of global financial events and provide a better understanding of the controversies surrounding hotly debated global financial issues.

Required Text

Financial Markets and Institutions, Frederic S. Mishkin, Stanley Eakins, 8th Edition (2015), Prentice Hall. ISBN-10: 013342362X; ISBN-13: 9780133423624 – ('ME')

In addition to assigned readings, you may also wish to read articles from the following financial market new resources:

National Post	Fortune Magazine
Globe and Mail	Forbes
The Economist	Reuters
The Wall Street Journal	Bloomberg News
The Financial Times	McKinsey – Global Capital Markets
CNBC – Market Insider	LCD Global Research
Federal Reserve System	Securities Industry and Financial Markets (SIFMA)
Bank of Canada	Global Financial Markets Association (GFMA)

Course Evaluation

	Deliverable	Date	Marks
1	Group Case I Group Case I presentation	Case due February 6 Presentations February 13	20%
3	Bloomberg certificate	Completed by Week 6	10%
4	Group Case II Group Case II presentation	Case due March 27 Case presented April 3	20%
5	Participation		10%
6	Final Examination	Centrally scheduled	40%
			100%

Cases and Presentations

At the beginning of the semesters, students will form groups of 3-4 people. In this group, students will be responsible for: (i) two (2) case papers and (ii) two (2) case presentations.

Group Research Report (the 'Cases')

There will be two (2) group term paper assignments to be done in groups of 3-4 students

This part of the course will involve the following.

1. You need to decide on the topics that you are interested in, related to the course. As a group, you must propose, in a one page, double-spaced memorandum the topic for your paper. This must be submitted by **Week 4** for your first group report and by **Week 10** for your second group report.
2. You should structure the paper as a business/analyst report, with executive summary; statement of problem; analysis of causes; conclusion and limitations; appendices; and references.
3. You should use data to support your analysis (particularly from Bloomberg), and you should generate your own graph and tables and properly cite the source materials. Your group is encouraged to conduct your own quantitative analysis (statistical analysis).
4. The term paper assignment requires the submission of a 10-page paper, double-sided, hardcopy format. You are also required to upload a copy to the cuLearn Dropbox.
5. The group will present case report according to the course schedule (to be developed). Each presentation must not be longer than 10 minutes.

Example term paper topics (you may use these topics)

- Impacts of macroeconomic policies on the Bond Market: Explain how the bond market is affected by the policies. In this case, you might use the United States in your case study – incorporating changing outlook by the Federal Reserve and the possible fiscal policies of President-Elect Trump.
- Evolution of correlations in international financial markets.
- Cause of Problems for Financial Institutions **since** the financial crisis: Select a financial institution that recently has had serious financial problems (possibly as a lingering result of the credit crisis). Determine the main underlying causes of the problems experienced by that financial institution. Explain how these problems might have been avoided. Note that you can use any country/region in your case study.
- Price of natural resources and strength of Canadian Currency: Canada is a resource-rich country and the present strength of Canadian dollar is often attributed to high prices of natural resources (e.g., oil) in recent times. Is this really true? If so, what do you think about the future strength of the Canadian dollar?

Other topics will be developed over the weeks of the course, prior to each case assignment.

Summary tables in the text are encouraged for quantitative information/comparison. In addition to the analysis, you may supply any data or figures that you feel are necessary in the appendix. Note: the reader will not look at the appendices unless properly directed by

the authors. **You need to properly cite your references both in-text and the end of the document (you may use APA format).**

Case presentation:

Students in the group presenting and defending the case will have 5 to maximum 10 minutes to present their case. The presentation may include a PowerPoint presentation, and the presentation *may* cover:

- Main problem
- General context
- Alternatives
- Analysis of alternatives
- Conclusions / recommendations

Bloomberg Certificate

By the course's half-point (week 6), each student must complete the Bloomberg certificate. The purpose of this training is twofold. Completion of the training will earn students 10% and incomplete training will earn students 0%. First, the training will supply you with the tools to complete your group research project. Second, the training will provide you with the tools to use a powerful database that dominates research and analysis in business today. More information will be provided on the training by the instructor. If you have already completed this training, submit your certificate to the instructor for credit.

Peer Evaluation - optional

Peer evaluation form is for you to use individually if you want to evaluate the participation of the members of your group during the term project and assignments. Note that submitting the peer evaluation form is not compulsory. If at least half of the members of a group submit their forms, I will use the feedback during the final marking of the term project and assignments for individual group members. If less than half of your group members submit their forms, all your group members will get the same marks.

Note: Peer evaluation is optional. The sample 'Peer Evaluation Form' is attached as appendix 1.

Final Comprehensive Examination

The Final Examination will cover the entire course topics, including cases discussed. Students who miss the Final Examination must apply for possible deferred examination privileges.

Course Schedule

<u>Week</u>	<u>Dates</u>	<u>Theme</u>	<u>Readings</u>	<u>Suggested Practice Problems (ME)</u> "Q" - Questions "P" - Quant. Problems
1	Jan.9	Why study financial markets and institutions	<p>1.1 ME CH1, pgs. 5 - 8</p> <p>1.2 University of Pennsylvania: " Do financial institutions matter?," Allen, Franklin, 2001, Center for Financial Institutions Working Papers 01-04,.</p> <p>1.3 Federal Reserve of St. Louis: "What the LIBOR-OIS Spread Says," 2009</p> <p>1.4 Discussion: Outlook for American and Canadian Interest Rates</p>	Q: 1, 2, 3, 4, 6, 7, 8, 9, 15
2	Jan.16	Overview of the financial system, Interest Rates	<p>2.1 ME CH2, pgs. 20 – 27, 33</p> <p>2.2 Trading Economics: "Fed Funds interest rate forecast 2016-2020," Jan 2017</p> <p>2.3 Wall Street Journal: "Wall Street Is Betting \$2.1 Trillion That U.S. Rates Will Rise," Nov 2016</p> <p>2.4 The Economist: "The Federal Reserve Raises Interest Rates in 2016," Dec 2016</p> <p>2.5 Discussion: Simon Property Group– fixed or floating?</p>	Q: 3, 4, 11, 12, 15
3	Jan.23	Interest rates (I) What do interest rates change?	<p>3.1 ME CH3, pgs. TBD</p> <p>3.2 The Federal Bank of New York, 12(5), 1 – 7: "The Yield Curve as a Leading Indicator: Some Practical Issues. Current Issues in Economics and Finance", 2006</p> <p>3.3 Globe and Mail: "High-Yield Bonds Regain Their Shine," Jan 2016</p> <p>3.4 Discussion: Buy High-Yield U.S. bonds, and Hedge the Canadian Dollar or not Hedge the CAD\$?</p>	TBA
4	Jan.30	Interest rates (II) Why do Interest Rates Change	<p>4.1 ME CH4, pgs. TBD</p> <p>4.2 CapGemini: The ABCs of Basel I, II, and III</p> <p>4.2 The Economist: "The low-rate world," Sept 24, 2016</p> <p>4.3 Stern NYU: "Capital Adequacy Shortfalls of European Banks," July 2016</p> <p>4.4 Discussion: To be announced</p>	TBA
5	Feb.6	Interest rates (III) How do risk & Term Structure Affect Interest Rates?	<p>5.1. ME CH5, pgs. TBD</p> <p>5.2 Federal Reserve Bank of St. Louis, 87(5), 589-896: "Understand the term structure of interest rates", 2005</p> <p>5.3 ECB: "Understand the Importance of the Yield Curve," Sept 2014</p> <p>5.4 Discussion: Japanese Yen carry trade</p> <p>DUE: Group research report I</p>	TBA
6	Feb.13	Money markets; Interest Rate Parity; Purchasing Power Parity; Real Exchange Rates	<p>6.1. ME CH11, pgs. TBD</p> <p>6.2. The Economist: "Blocked Pipes: when banks find it hard to borrow, do the rest of us," Oct 2, 2008</p> <p>6.3 TBA</p> <p>6.4 Discussion: Purchasing Power Parity and Interest Rates – outlook for the Euro?</p> <p>DUE: Group research report I presentations</p>	TBA
	Feb.20		Reading Week	

<u>Week</u>	<u>Dates</u>	<u>Theme</u>	<u>Readings</u>	<u>Suggested Practice Problems (ME)</u> "Q" - Questions "P" - Quant. Problems
7	Feb.27	Bond Market; International Debt Financing	7.1 ME CH12, pgs. TBD 7.2 Financial System Review, Bank of Canada, 35-42: "The Maple Bond Market," 2006 7.3 TBA 7.4 Discussion: To be announced	TBA
8	Mar.6	Stock Market; International Equity Financing	8.1 ME CH13, pgs. TBD 8.2 The Economist: "Stocks in Trade," Nov 13, 1999 8.3 Financial System Review, Bank of Canada, December, 45-50: "The Changing Landscape of Securities Trading," 2007 8.4 Discussion: Fairfax Africa IPO	TBA
9	Mar.13	Foreign Exchange Market; Exchange Rate Forecasting	9.1 ME CH15, pgs. TBD 9.2 HBS 9-205-016: "Foreign Exchange Markets and Transactions" 9.3 Journal of Economic Perspectives, 18 (4), 135-158: "The Purchasing Power Parity Debate," 2004 9.4 Bank of Canada Review: "What Drives Movements in Exchange Rates," autumn 2005. 9.5 Discussion: To be announced	TBA
10	Mar.20	Banking Industry; Financing International Trade	10.1 ME CH17, pgs. TBD 10.2 BusinessInsider UK: "This is how a new crop of companies is trying to reinvent banking," Oct 2015 10.3. McKinsey: Digital Finance for All, pgs. 31-55 Sept 2016 10.4. OECD, 2011: "Bank Competition and Financial Stability" (Read only Chapter 1) 10.5 Discussion: Fintech and Blockchain in International Finance	TBA
11	Mar.27	Banking Industry: Structure and Competition; Risk Management and Foreign Currency Hedging Decisions	11.1. ME CH19, pgs. TBD 11.2. The Economist" "Canadian Banks: Strong, but not invulnerable," Oct 29, 2012 11.3 To be announced 11.4 To be announced 11.5 Discussion: To be announced DUE: Group research report II	TBA
12	Apr.3	Risk Management in Financial Institutions	12.1 ME CH23, pgs. TBD 12.2 Readings: TBA 12.3 Discussion: To be announced DUE: Group research report I presentation	TBA

The course schedule is subject to change. Additional readings may be added to the list as we progress through the course. A separate case schedule will be released once groups are established in the first week.

Appendix 1. Sample Peer Evaluation Form

Peer evaluation form

Evaluator's name: _____

Evaluator's CUID: _____

Scale (0-3): please rate each group member's participation, including yourself

- 0- no participation 0%
- 1- minimal participation 30%
- 2- kind of participation 60%
- 3- active participation 100%

Team member name		Rating
	1 _____	_____
	2 _____	_____
	3 _____	_____
	4 _____	_____

Comments:

ADDITIONAL INFORMATION

Course Sharing Websites

Student or professor materials created for this course (including presentations and posted notes, labs, case studies, assignments and exams) remain the intellectual property of the author(s). They are intended for personal use and may not be reproduced or redistributed without prior written consent of the author(s).

Required calculator in BUSI course examinations

If you are purchasing a calculator, we recommend any one of the following options: Texas Instruments BA II Plus (including Pro Model), Hewlett Packard HP 12C (including Platinum model), Staples Financial Calculator, Sharp EL-738C & Hewlett Packard HP 10bII

Group work

The Sprott School of Business encourages group assignments in the school for several reasons. They provide you with opportunities to develop and enhance interpersonal, communication, leadership, follower-ship and other group skills. Group assignments are also good for learning integrative skills for putting together a complex task. Your professor may assign one or more group tasks/assignments/projects in this course. Before embarking on a specific problem as a group, it is your responsibility to ensure that the problem is meant to be a group assignment and not an individual one.

In accordance with the Carleton University Undergraduate Calendar (p 34), the letter grades assigned in this course will have the following percentage equivalents:

A+ = 90-100	B+ = 77-79	C+ = 67-69	D+ = 57-59
A = 85-89	B = 73-76	C = 63-66	D = 53-56
A - = 80-84	B - = 70-72	C - = 60-62	D - = 50-52
F = Below 50			

WDN = Withdrawn from the course

ABS = Student absent from final exam

DEF = Deferred (See above)

FND = (Failed, no Deferred) = Student could not pass the course even with 100% on final exam

Academic Regulations, Accommodations, Etc.

University rules regarding registration, withdrawal, appealing marks, and most anything else you might need to know can be found on the university's website, here:

<http://calendar.carleton.ca/undergrad/regulations/academicregulationsoftheuniversity/>

Requests for Academic Accommodations

For Students with Disabilities:

The Paul Menton Centre for Students with Disabilities (PMC) provides services to students with Learning Disabilities (LD), psychiatric/mental health disabilities, Attention Deficit Hyperactivity Disorder (ADHD), Autism Spectrum Disorders (ASD), chronic medical conditions, and impairments in mobility, hearing, and vision. If you have a disability requiring academic accommodations in this course, please contact PMC at 613-520-6608 or pmc@carleton.ca for a formal evaluation. If you are already registered with the PMC, contact your PMC coordinator to send me your **Letter of Accommodation** at the beginning of the term, and no later than two weeks before the first in-class scheduled test or exam requiring accommodation (*if applicable*). **Requests made within two weeks will be reviewed on a case-by-case basis.** After requesting accommodation from PMC, meet with me to ensure accommodation arrangements are made. Please consult the PMC website (www.carleton.ca/pmc) for the deadline to request accommodations for the formally-scheduled exam (*if applicable*).

For Religious Obligations:

Students requesting academic accommodation on the basis of religious obligation should make a formal, written request to their instructors for alternate dates and/or means of satisfying academic requirements. Such requests should be made during the first two weeks of class, or as soon as possible after the need for accommodation is known to exist, but no later than two weeks before the compulsory event.

Accommodation is to be worked out directly and on an individual basis between the student and the instructor(s) involved. Instructors will make accommodations in a way that avoids academic disadvantage to the student.

Students and instructors can confirm accommodation eligibility of a religious event or practice by referring to the Equity Services website (<http://carleton.ca/equity/accommodation/religious-observances/>) for a list of holy days and Carleton's Academic Accommodation policies. If there are any questions on the part of the student or instructor, they can be directed to an Equity Services Advisor in the Equity Services Department for assistance.

For Pregnancy:

Pregnant students requiring academic accommodations are encouraged to contact an Equity Advisor in Equity Services to complete a letter of accommodation. The student must then make an appointment to discuss her needs with the instructor at

least two weeks prior to the first academic event in which it is anticipated the accommodation will be required.

Academic Integrity

Violations of academic integrity are a serious academic offence. Violations of academic integrity – presenting another’s ideas, arguments, words or images as your own, using unauthorized material, misrepresentation, fabricating or misrepresenting research data, unauthorized co-operation or collaboration or completing work for another student – weaken the quality of the degree and will not be tolerated. Penalties may include; a grade of Failure in the submitted work and/or course; academic probation; a refusal of permission to continue or to register in a specific degree program; suspension from full-time studies; suspension from all studies at Carleton; expulsion from Carleton, amongst others. Students are expected to familiarize themselves with and follow the Carleton University Student Academic Integrity Policy which is available, along with resources for compliance at: <http://carleton.ca/studentaffairs/academic-integrity>.

Sprott Student Services

The Sprott student services office, located in 710 Dunton Tower, offers academic advising, study skills advising, and overall academic success support. If you’re having a difficult time with this course or others, or just need some guidance on how to successfully complete your Sprott degree, please drop in any weekday between 8:30am and 4:30pm. Our advisors are happy to discuss grades, course selection, tutoring, concentrations, and will ensure that you get connected with the resources you need to succeed! <http://sprott.carleton.ca/students/undergraduate/learning-support/>

Be in the know with what’s happening at Sprott: Follow @SprottStudents and find us on Facebook SprottStudents Sprott.

Important Information:

- Students must always retain a hard copy of all work that is submitted.
 - All final grades are subject to the Dean’s approval.
 - For us to respond to your emails, we need to see your full name, CU ID, and the email must be written from your valid CARLETON address. Therefore, it would be easier to respond to your inquiries if you would send all email from your Carleton account. If you do not have or have yet to activate this account, you may wish to do so by visiting <http://carleton.ca/ccs/students/>
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