

Financial Intermediation and Financial Markets

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Purpose

This course:

- Examines why financial intermediaries exist, how they co-exist with financial markets, and how they have been forced to switch from accepting deposits and making loans to using derivatives to manage risk.
- Shows how risk management differs between bank-based and market-based economies.
- Analyzes the economic consequences of financial market imperfections, especially for credit market equilibrium and rationing,
- Examines theories of bank runs and systemic risk.
- Shows how different financial systems and governments can cope with financial crises, financial fragility, and credit market frictions.

Course Goals & Learning Objectives

By the end of this course, you will be able to:

- Describe and explain the structure of financial intermediaries and financial markets
- Apply economic theory in the context of financial markets
- Analyze alternative regulatory policies that apply to financial markets
- Calculate value measures and risk metrics for bonds, mortgages, and stocks
- Explain and illustrate the core principles of bank management
- Discuss the fundamental principles behind non-bank institutions, such as insurance companies and mutual funds
- Describe and critique the causes and consequences of the Global Financial Crisis

Textbook

Frederic Mishkin and Stanley Eakins, *Financial Markets and Institutions*, Eighth Edition, Pearson Addison Wesley, ISBN 13: 978-0-13-342362-4

Grading

The weights for each of the components are as follows:

Assessment	Weight
Midterm Exam	30%
Final Exam	30%
Assignments	10%
Book Review	25%
Reviews of reviews	5%

Exams

The midterm and final exams will be based upon material from lectures, the text, and assignments. The format will be a blend of multiple choice, short answer, and numerical questions. Exams will be scored on a 100 point scale, and each exam will contribute 30% to the overall course grade.

Assignments

There will be four graded assignments. The assignments consist of 20 to 30 numerical problems, and each answer is worth one point a piece. The assignments must be turned in on a specified date as noted in the course schedule. You will have a week to complete each assignment and turn in your response. If you do not complete an assignment for a particular week, you simply must accept a score of '0' for that assignment.

Book Review

Each student must select a book that relates to the most recent financial crisis. The choice of the book must be submitted for approval by the fourth week of the course. You must provide an analysis of this book that includes:

- 1) Overall summary of book
- 2) Critical analysis of the events in the book as it pertains to the financial crisis. You should address the following questions:
 - a. Do you agree or disagree with the themes of the book regarding the causes of the financial downfall?
 - b. Do you feel that the author provides an 'unbiased' view of events, or is the author an advocate with a particular viewpoint or ideology?
 - c. Does the book provide an effective prescription to prevent such events in the future? Do you agree or disagree with these remedies?

The review is not intended to be a 'book report.' While it is necessary to provide a brief summary of the key points of the book, much more weight is placed upon your critical analysis of the strengths and weaknesses of the book, using the financial concepts examined in this course.

The review should be 5 to 10 pages in length (using double-spaced type).

Book reviews will be scored with a maximum score of 25 points. A portion of the score is based upon the critiques of others in the class who will review your paper (10 of the 25 points). The remaining portion of the score (15 of the 25 points) is based upon my review of the paper.

Reviews of Reviews

Each student will be given the book reviews of **two** other students in the class to review. The review is essentially a review of the book review. When reviewing a review, you should ask:

- 1) Does the review appear to effectively communicate the themes, strengths, and weaknesses of the book?
- 2) Does the analysis miss any key feature or argument that you feel to be important?
- 3) Did you find the review interesting?

You must provide a score ranging from 0 to 5 for each book review. Reviews should be no longer than a single page in length. Reviews must be completed one week after the book reviews are received.

Your reviews, in turn, will be assessed based the quality and reasonableness of your analysis. You will receive a score ranging from 0 to 5 points based upon the quality of your reviews.

Recommended Problems

The recommended problems are not collected or graded, as you are provided the answers. These are usually taken from the review questions at the end of chapters in the textbook. These problems help in understanding and reinforce the relevant content included in the lectures and the text.

Course Schedule

Week 1:	May 16
Topic:	Overview of the Financial System
Text:	Chapters 1 – 2
Week 2:	May 23
Topic:	Interest Rates & Term Structure
Text:	Chapters 3 & 5 Receive Assignment #1
Week 3:	May 30 - Holiday
Week 4:	June 6
Topic:	The Bond Market
Text:	Chapters 4, 11, & 12 Assignment #1 Due Receive Assignment #2
Week 5:	June 13
Topic:	The Mortgage Market
Text:	Chapter 14
Reading:	“Guide to Mortgage-Backed Securities,” Citigroup Choice of book for review due Assignment #2 due Receive Assignment #3
Week 6:	June 20
Topic:	The Stock Market
Text:	Chapters 6 & 13 Assignment #3 Due
Week 7:	June 27
	Midterm Exam
Week 8:	July 4 – Holiday
Week 9:	July 11
Topic:	Financial Institutions & Financial Crises
Text:	Chapters 7 & 8
Reading:	“Over the Cliff: From Subprime to the Global Financial Crisis,” Mishkin

Week 10: July 18
Topic: Commercial Banking & Financial Regulation
Text: Chapters 17 & 18

Week 11: July 25
Topic: Managing Credit & Interest Rate Risk
Text: Chapters 23 & 24
Receive Assignment #4

Week 12: August 1
Topic: The Banking Industry
Text: Chapters 19 & 22
Assignment #4 Due

Week 13: August 8
Topic: Mutual Funds, Pension Funds, & Insurance Companies
Text: Chapters 20 & 21
Book Reviews Due
Receive Reviews to Review

Week 14: August 15
Final Exam
Reviews Due

University Policies

General

This course adheres to all University policies described in the academic catalog. Please pay close attention to the following policies:

Students with Disabilities

Johns Hopkins University is committed to providing reasonable and appropriate accommodations to students with disabilities. Students with documented disabilities should contact the coordinator listed on the [Disability Accommodations](#) page. Further information and a link to the Student Request for Accommodation form can also be found on the [Disability Accommodations](#) page.

Ethics & Plagiarism

JHU Ethics Statement: The strength of the university depends on academic and personal integrity. In this course, you must be honest and truthful. Ethical violations include cheating on exams, plagiarism, reuse of assignments, improper use of the Internet and electronic devices, unauthorized collaboration, alteration of graded assignments, forgery and falsification, lying, facilitating academic dishonesty, and unfair competition. Report any violations you witness to the instructor.

Read and adhere to JHU's [Notice on Plagiarism](#).

Dropping the Course

You are responsible for understanding the university's policies and procedures regarding withdrawing from courses found in the current catalog. You should be aware of the current deadlines according to the [Academic Calendar](#).