

FINANCE 408
Financial Markets and Institutions
Summer 2006 (05/15 – 06/23)
MTWRF 11:10am -12:25pm, 102 Business Building

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Office Hours: Tuesday 9:30am-11:00am, Thursday 1:30pm-3:00pm, or by appointment

Course Outline

I. Course Description:

The purpose of this course is to provide students with an introduction to the financial system, including major financial markets, institutions, and instruments. The larger objective of the course is to understand how the financial market place facilitates the movement of resources from ultimate lenders to ultimate borrowers. We will begin by studying the determination of interest rate, and the functions of the Fed and its monetary policy. We will then study various financial markets for financial instruments. We will examine the determinants of financial prices and yields, and learn the quantitative tools and perspectives to evaluate financial prices and risks. Finally, we will study the structure and operation of some major financial institutions.

II. Course Materials:

Text Book: Financial Markets and Institutions, by Jeff Madura, Thomson/South-Western, 7th ed., 2006.

Course Website: <https://cms.psu.edu>

III. Course Requirements/Grading:

- (1) A total of three quizzes will be given during the semester. The attached daily schedule indicates when quizzes will occur. The best 2 out of 3 scores will count toward final grading (i.e., you can drop one quiz score). Overall, quizzes will count for 20% of the final grade.
- (2) Three exams will be given during the semester. You can not drop any exam score. See the attached daily schedule for exam dates. Each exam will be closed book and given in class. Exams will not be cumulative, although later exams may use previous knowledge. Overall, exams will count for 70% of the final grades.
- (3) Homework and class participation will be a component of final grading. Periodically, homework problems will be assigned and discussed in class. Students are expected to accomplish scheduled assignments prior to classroom discussion. On occasion, students will be required to hand in written solutions/answers to assignments for grading. Overall, HW and class participation will count for 10% of the final grade.
- (4) Summary of Component Weights for Final Grading:

Quizzes	20%
Exam I	25%
Exam II	25%
Exam III	20%
HW/Class Participation	<u>10%</u>
Total	100%

(5) Preparation for quizzes and exams: Students are responsible for the materials in the textbook, not all of which will be covered in class. Students are also responsible for the additional materials covered in the lecture notes. Calculator is required (not necessarily financial calculator). Students are strongly recommended to figure out the answers to the homework questions and examples in the lectures on your own since they may appear again in the quizzes or exams.

(6) Makeup Policy:

All three exams are required; students must attend on the dates indicated at their assigned class time. Makeup exam will be given only for just cause, with adequate documentation, as determined by the instructor in accordance with University policy.

Tentative Class Schedule

Week 1	
May 15 (M)	Introduction - Madura: Ch 1
May 16 (T)	Determinants of Interest Rates - Madura: Ch 2
May 17 (W)	Inflation, Asset Prices, and Yields - Madura: Ch 2, Ch 3
May 18 (R)	Structure of Interest Rates - Madura: Ch 3
May 19 (F)	Structure of Interest Rates - Madura: Ch 3
Week 2	
May 22 (M)	Quiz1 ; Federal Reserve and Monetary Policy - Madura: Ch 4,5
May 23 (T)	Federal Reserve and Monetary Policy - Madura: Ch 4,5
May 24 (W)	Review
May 25 (R)	Exam1
May 26 (F)	Money and Bond Markets - Madura: Ch 6,7
Week 3	
May 29 (M)	Memorial Day Holiday - No Classes
May 30 (T)	Money and Bond Markets - Madura: Ch 6,7
May 31 (W)	Bond Valuation and Risk – Madura: Ch 8
June 1(R)	Equity Market – Madura: Ch 10
June 2 (F)	Stock Valuation – Madura: Ch 11
Week 4	
June 5 (M)	Quiz2 ; Futures Markets - Madura: Ch 13
June 6 (T)	Futures Markets - Madura: Ch 13
June 7 (W)	Options Markets - Madura: Ch 14
June 8 (R)	Options Markets - Madura: Ch 14
June 9 (F)	Review
Week 5	
June 12 (M)	Exam2
June 13 (T)	Interest Rate Derivatives - Madura: Ch 15
June 14 (W)	Interest Rate Derivatives - Madura: Ch 15
June 15 (R)	Foreign Exchange Markets - Madura: Ch 16
June 16 (F)	Foreign Exchange Markets - Madura: Ch 16
Week 6	
June 19 (M)	Quiz3 ; Commercial Banking – Madura: Ch 17
June 20 (T)	Nonbank Operations – Madura: Ch 23
June 21 (W)	Nonbank Operations – Madura: Ch 24
June 22 (R)	Review
June 23 (F)	Exam3

Pennsylvania State University Policy:

Academic Integrity:

According to the University Advising Handbook:

Academic integrity is a basic guiding principle for all academic activity at Penn State University, allowing the pursuit of scholarly activity in an open, honest, and responsible manner. According to the University's Code of Conduct, you must not engage in or tolerate academic dishonesty. This includes, but is not limited to cheating, plagiarism, fabrication of information or citations, facilitating acts of academic dishonesty by others, unauthorized possession of examinations, submitting work of another person, or work previously used without informing the instructor, or tampering with the academic work of other students.

Any violation of academic integrity will be thoroughly investigated, and where warranted, punitive action will be taken.

Action & Sexual Harassment:

The Pennsylvania State University is committed to a policy where all persons shall have equal access to programs, facilities, admission, and employment without regard to personal characteristics not related to ability, performance, or qualifications as determined by University policy or by Commonwealth or Federal authorities. Penn State does not discriminate against any person because of age, ancestry, color, disability or handicap, national origin, race, religious creed, gender, sexual orientation, or veteran status. Direct all inquiries to the Affirmative Action Office, 328 Boucke Building.

Americans with Disabilities Act:

The Smeal College of Business Administration welcomes persons with disabilities to all of its classes, programs, and events. If you need accommodations, or have questions about access to buildings where Smeal College activities are held, please contact us in advance of your participation or visit. If you need assistance during a class, program, or event, please contact the member of our staff or faculty in charge. Access to **Finance** courses should be arranged by contacting the **Finance Department Office**: (814-863-0486).

An Invitation to Students with Learning Disabilities:

It is Penn State's policy to not discriminate against qualified students with documented disabilities in its educational programs. If you have a disability-related need for modifications in your testing or learning situation, your instructor should be notified during the first week of classes so that your needs can be accommodated. You will be asked to present documentation from the Office of Disability Services (located in 116 Boucke Building; 863-1807) that describes the nature of your disability and the recommended remedy. You may refer to the Nondiscrimination Policy in the *Student Guide to University Policies and Rules*.