

**\*\*\*Preliminary Version, Subject to Change**

**University of Hawaii at Manoa  
Department of Economics**

**Economics 340 (601)  
Financial Markets and Institutions  
9:30-10:45 AM MTWThF, Location: TBA  
Summer Session I 2008  
May 27-July 3, 2008**

**Instructor:** Archi Gatchalian  
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**Office Hours:** 11 AM-12 PM, TTh, or by appointment  
Saunders 537

**Required Text:** Financial Markets and Institutions, 6<sup>th</sup> edition  
by Frederic S. Mishkin and Stanley G. Eakins (published by  
Pearson Education/Prentice Hall, 2009)

**Course Description:** This course will cover three main topics: 1) Fundamentals of Financial Markets; 2) The Different Financial Markets; and 3) Fundamentals and Management of Financial Institutions. A fourth section “Central Banking and the Conduct of Monetary Policy” will be covered depending on time availability.

**Exams and Grading Policy:** There will be 3 exams in this class, including a comprehensive final exam. The two midterm exams and the final exam will all comprise 70% of the final grade. Students should expect different types of questions, such as modified true or false, multiple choice, defining terms, mathematical derivations, and essay questions, among others. The exams are designed to test the analytical skills of students on the topics discussed in class rather than their ability to memorize concepts, ideas, and terms. Though the reasoning stays the same, the questions should not be usually taken at face-value from the lectures given. Thus, logical and economic reasoning are powerful tools which will be needed in hurdling the exams. There will be a number of unannounced quizzes during the course of the session which can be distributed at any time during the class. This strategy is targeted to reward students who come to class to listen to my lectures. True or false and multiple choice questions will be common in the short quizzes. The unannounced quizzes will comprise 20% of the final grade. Finally, homework from end-of-chapter problem sets will be assigned towards the end of the discussion of every chapter covered in the book. One to two of the usual three to five homework problems will be graded for correctness, while the rest will be given credit for being answered. The graded problems will be determined randomly to assure that students will answer each of the homework problems in detail and with rigor.

## **Grading System:**

First and Second Exams (20% each exam)	40%
Final Exam	30%
Unannounced Quizzes	20%
Homeworks	10%

\*Grades awarded will include +/- notation.

## **Tentative Course Schedule\*:**

### **I. Introduction**

- A. Why Study Financial Markets and Institutions?  
Chapter 1
- B. Overview of the Financial System  
Chapter 2

### **II. Fundamentals of Financial Markets**

- A. What Do Interest Rates Mean and What Is Their Role in Valuation?  
Chapter 3
- B. Why Do Interest Rates Change?  
Chapter 4
- C. How Do Risk and Term Structure Affect Interest Rates?  
Chapter 5

### **III. Financial Markets**

- A. The Money Markets and The Bond Market  
Chapters 9 and 10
- B. The Foreign Exchange Market and The International Financial System  
Chapters 13 and 14:

#### ***First Midterm***

***Tentative Coverage: Chapters 1-5, 9-10, 13-14***

- C. The Stock Market, The Efficiency of Markets, and Models of Asset Pricing  
Chapter 11, 6, and Appendix 4.1
- D. The Mortgage Markets  
Chapter 12 (*This chapter will be covered depending on time availability.*)

#### **IV. Fundamentals and the Management of Financial Institutions**

- A. Why Do Financial Institutions Exist?  
Chapter 15
- B. Risk Management in Financial Institutions  
Chapter 24
- C. Hedging with Financial Derivatives  
Chapter 25

#### ***Second Midterm***

***Tentative Coverage: Chapters 4.1, 6, 11, 15, 24-25***

#### **V. Central Banking and the Conduct of Monetary Policy**

*(This section will be covered depending on time availability.)*

- A. Structure of Central Banks and the Federal Reserve System  
Chapter 7
- B. Conduct of Monetary Policy-Tools, Goals, Strategy, and Tactics  
Chapter 8

#### ***Comprehensive Final Exam***

\*As this course schedule is tentative, some topics may be added or subtracted as the course proceeds.