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, 6th 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 40%
  (20% each exam)
- 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.