Course information 2019–20
FN1024 Principles of banking and finance

This is designed as the foundation banking and finance course on which subsequent and more specialised finance courses are based.

Aims and objectives
The specific aims of this course are to:
- Provide institutional features of financial systems.
- Identify key issues and problems arising in banking and finance.
- Introduce the key economic concepts required to analyse these key issues and problems.
- Illustrate how these economic principles can be applied to address the key issues identified.
- Show how the institutional features address the key issues identified.

Essential reading
For full details please refer to the reading list.
Mishkin, F. and S. Eakins Financial Markets and Institutions. (Addison Wesley)

Assessment
This course is assessed by a three-hour unseen written examination.

Learning outcomes
At the end of the course and having completed the essential reading and activities students should:

- discuss why financial systems exist, and how they are structured
- explain why the relative importance of financial intermediaries and financial markets is different around the world, and how bank-based systems differ from market-based systems
- understand why financial intermediaries exist, and discuss the role of transaction costs and information asymmetry theories in providing an economic justification
- explain why banks need regulation, and illustrate the key reasons for and against the regulation of banking systems
- discuss the main types of risks faced by banks, and use the main techniques employed by banks to manage their risks
- explain how to value real assets and financial assets, and use the key capital budgeting techniques (Net Present Value and Internal Rate or Return)
- explain how to value financial assets (bonds and stocks)
- understand how risk affects the return of a risky asset, and hence how risk affects the value of the asset in equilibrium under the fundamental asset pricing paradigms (Capital Asset Pricing Model and Asset Pricing Theory)
- discuss whether stock prices reflect all available information, and evaluate the empirical evidence on informational efficiency in financial markets.
Syllabus
This is a description of the material to be examined. On registration, students will receive a detailed subject guide which provides a framework for covering the topics in the syllabus and directions to the essential reading.

Part 1 Financial Systems

1. **Introduction to Financial Systems**: Role of financial systems (role of households, government, and firms in terms of savings and investments). Financial intermediaries, securities and markets. Taxonomy of financial institutions. Nature of financial claims (debt versus equity, bonds and notes, fixed and floating interest rates, common and preferred stocks). Structure of financial markets (direct and indirect finance, dealers and brokers, banks, mutual funds, pension funds, and insurance companies).

2. **Comparative Financial Systems**: Bank-based systems against market-based systems. Legal aspects.

Part 2 Financial Intermediaries


4. **Regulation of Banks**: Regulation of banks (free banking, arguments for or against regulation, traditional regulation mechanisms, alternatives to traditional regulation).


Part 3 Principles of finance


Students should consult the appropriate EMFSS Programme Regulations, which are reviewed on an annual basis. The Regulations provide information on the availability of a course, where it can be placed on your programme’s structure, and details of co-requisites and prerequisites.