Instructor: DR. YEO Wee Yong  
Office: BIIZ 07-57  
Telephone: 6516-3139  
E-mail: bizyeowy@nus.edu.sg

Consultation Hours: No specific timing, but please e-mail at least the day before


Textbooks requirement: Buying of textbooks is optional

Prerequisites: FIN2004

Course Objective: The objective of this course is to give students a general understanding of the different financial markets and institutions in the context of both the U.S. and Singapore. The financial assets traded in these markets, the financial services and instruments these institutions offer, and the mechanisms and characteristics influencing the value of these assets and instruments will also be discussed.
Assessment: This is a 100% CA course

<table>
<thead>
<tr>
<th>Component</th>
<th>Weight</th>
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</thead>
<tbody>
<tr>
<td>Mid-Term</td>
<td>40</td>
</tr>
<tr>
<td>Final Quiz</td>
<td>20</td>
</tr>
<tr>
<td>Term project</td>
<td>30</td>
</tr>
<tr>
<td>Class participation</td>
<td>10</td>
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<tr>
<td><strong>Total</strong></td>
<td><strong>100</strong></td>
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**Mid-Term:**
**Date: October 5, 2010 (In Class)**
The mid-term test will be a 2-hour close-book test covering topics up to and including “The Equity Market”. The mid-term will be held during class hours. Students are to make sure that they are available to sit for the exam.

**Final Quiz:**
**Date: November 9, 2010 (In Class)**
The final quiz will be a 1-hour close-book quiz covering only topics not covered in the mid-term test. The quiz will be held during class hours. Students are to make sure that they are available to sit for the quiz.

**Term project:**
The term projects will be in terms of Student Teaching Assignments. The objective of the project is to allow students to research into issues and questions related to the topics covered in the course and to share the knowledge they have acquired with the rest of the class. Students are to form into groups of their own preference by the end of week 4 or they will be assigned to groups according to the discretion of the instructor. The research questions and the date of the presentation will be randomly assigned. Groups will be graded based on the presentation (which will be spaced out throughout the second half of the course) and a written report. All soft copies of the projects will be put up in the IVLE and the material covered in these reports may be included in the final quiz.

**Class participation:**
Students are expected to participate actively during classes.

**Points to Note:**
1. Financial calculators will be needed in the course.
2. **Attendance:** Students must not miss more than 2 classes (not including absence due to medical (accompanied by medical certificates) or compassionate reasons). **Violators will be heavily penalized or may even fail the entire module.**
3. CA Attendance: Students who miss any CA component will receive zero marks for that particular component. Absentees due to medical (accompanied by medical certificates) or compassionate reasons may be given a substitute form of assessment.
4. Students are encouraged to always feedback to the instructor comments and suggestions that may help the class to learn better.
5. Students are to check the IVLE weekly for announcements.
6. Forum in IVLE exclusively for students’ discussions
7. Please use NUS e-mail for e-mail communications
Lesson Schedule:

<table>
<thead>
<tr>
<th>Week</th>
<th>Week Starting</th>
<th>Topic and Activity</th>
<th>Chapters</th>
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</thead>
<tbody>
<tr>
<td>1</td>
<td>Aug 10</td>
<td>Introduction and Financial Institutions I</td>
<td>1-5</td>
</tr>
<tr>
<td>2</td>
<td>Aug 17</td>
<td>Financial Institutions II: Banks</td>
<td>1-5</td>
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<tr>
<td>3</td>
<td>Aug 24</td>
<td>Financial Institutions II: Banks</td>
<td>1-5</td>
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<tr>
<td>4</td>
<td>Aug 31</td>
<td>Interest Rates and the Debt Market</td>
<td>17-28</td>
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<tr>
<td>5</td>
<td>Sep 7</td>
<td>Interest Rates and the Debt Market</td>
<td>17-28</td>
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<td>6</td>
<td>Sep 14</td>
<td>The Equity Market</td>
<td>7, 13-16</td>
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<td></td>
<td>Sep 21</td>
<td><strong>Term Break</strong></td>
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<tr>
<td>7</td>
<td>Sep 28</td>
<td>The Equity Market</td>
<td>7, 13-16</td>
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<td>8</td>
<td>Oct 5</td>
<td><strong>Mid-Term Exam</strong></td>
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<tr>
<td>9</td>
<td>Oct 12</td>
<td>The Forex Market</td>
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<td></td>
<td>Student Teaching Assignment (Group 1)</td>
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<td>Student Teaching Assignment (Group 2)</td>
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<td>10</td>
<td>Oct 19</td>
<td>The Forex Market</td>
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<td>Student Teaching Assignment (Group 3)</td>
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<td>Student Teaching Assignment (Group 4)</td>
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<td>11</td>
<td>Oct 26</td>
<td>The Derivatives Market</td>
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<td>Student Teaching Assignment (Group 5)</td>
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<td>Student Teaching Assignment (Group 6)</td>
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<tr>
<td>12</td>
<td>Nov 2</td>
<td>The Derivatives Market</td>
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<td>Student Teaching Assignment (Group 7)</td>
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<td>Student Teaching Assignment (Group 8)</td>
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<tr>
<td>13</td>
<td>Nov 9</td>
<td><strong>Final Quiz</strong></td>
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<td></td>
<td>Student Teaching Assignment (Group 9)</td>
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<td>Student Teaching Assignment (Group 10)</td>
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</tbody>
</table>
Course Contents

1. Introduction
   • Financial Assets: roles, types, properties (moneyness, divisibility, reversibility, maturity, liquidity, currency, risk)
   • Financial Markets: roles, types (primary vs secondary, debt vs equity, money market vs capital market, exchange vs OTC, spot vs forward/future)

2. Financial Institutions I: Financial intermediaries
   • Depository institutions: commercial banks, wholesale banks, offshore banks, savings banks, savings and loan associations, credit unions, finance companies
   • Non-depository institutions: insurance companies, pension funds (CPF and 401K), investment banks (Glass Steagall Act and Gramm Leach Bliley Act), investment companies, hedge funds, private equity funds

3. Financial Institutions II: Banks
   • Central banks: Federal Reserve System and MAS
   • Interest rate risk: GAP analysis, net duration position, hedging (balance sheet and off balance sheet), Asset and Liability Management Department
   • Liquidity risk: MAS liquidity requirements, fund transfer pricing and the liquidity premium
   • Others: credit risk, forex risk, trading risk
   • Basel I and II (compare and contrast), implementation process, impact on the international banking environment
   • Islamic banking

4. Interest Rate and the Debt Market
   • Real vs nominal
   • Effective vs quote rates of different types of loans: flat basis, discounted flat basis, annual rest, declining balance
   • Different types of bonds: level coupon, consols, callable, convertible, floating, pure discount, Euro, Asian dollar, foreign, domestic
   • The Singapore government securities market
   • The Singapore corporate bond market
   • Pricing and auction of Singapore T-bills and T-bonds

5. The Equity Market
   • Why raise equity?
   • IPO and theories explain underpricing: winner’s curse, signaling, Cascades Hypothesis, law suit avoidance, dispersion of ownership
   • Types of equities: common shares, preference shares, depository receipts (ADRs, GDRs, EDRs), ETFs, REITs, structured warrants
   • Types of markets: Quote driven vs order driven
   • Major exchanges: NYSE, Nasdaq, ECNs, SGX
Major recent and future developments: decimalization, competition from ECNs, trend towards order driven markets, open limit order book, demutualization, consolidations (Deutsche Börse, Euronext, LSE), 24 hours trading
Types of orders: market orders, limit orders
Priority rules
Margin trading
Short selling
Stock indices
Market microstructure: measurement of market friction
The hedge fund industry

6. The Forex Market
History of money: Gold standard, inter-war, Bretton Woods, Smithsonia, Jamaica, Plaza, Louvre, European monetary system: Maastricht Treaty, EMU, ERM, Euro
Main Forex centres
Cross rates, two-point and three-point arbitrage
Parity conditions: PPPs, Interest rate parity (cover interest arbitrage), Fisher effect, International Fisher effect, Unbiased estimator hypothesis
Determinants of forex rates
The Singapore forex regime
Currency crises

7. The Derivative Market
Forwards, futures, options
Basis risk: Hedging with forward/futures
Theoretical futures prices and stock index arbitrage (impact on volatility of the equity market: 1987 crash)
The Singapore futures market: SGX-DT, products traded (equity indices, interest rates, single stock futures), and SGX-CBOT joint venture
Credit derivatives