

# FIN 252: Foundations of Financial Markets and Institutions

Lecture Hours: 150

Full Marks: 100  
Pass Marks: 35

## Course Objective

The course aims to lay the foundation of students on financial institutions and markets by imparting the fundamentals concepts and theories of financial markets and institutions. By the end of this course, the student will understand the functioning of financial institutions such as depository and non-depository financial institutions, the role of the central bank, and the markets for government and corporate securities.

## Course Description

Financial institutions and markets are important components of market economy. Students studying finance courses must be familiar with the purpose and functions of the financial institutions and the markets. Therefore, this course deals with fundamental aspects of financial institutions and markets as they operate in an economy. This course covers the fundamentals concepts and theories of financial markets and assets, depository and non-depository financial institutions, central banking and monetary policy, assets price and interest rates, organization and structure of markets, government securities markets, markets for corporate securities, mortgage and assets backed securities, and risk in financial institutions.

## Course Details

### Unit 1: Introduction

LH 10

Overview of financial assets: concept of financial assets, debt versus equity instruments, the price of financial assets and risk, financial assets versus tangible assets, the role of financial assets; Financial markets: concepts and role of financial markets, classification of financial markets, market participants, globalization of financial markets, classification of global financial markets, motivation for foreign market and Euromarkets; The role of the government in financial markets: justification for regulation, forms of regulation; and Financial innovation: categorization of financial innovations, and motivation for financial innovation.

### Unit 2: Financial Institutions, Financial Intermediaries and Asset Management Firms

LH 7

Financial institutions: services provided by financial institutions; Role of financial intermediaries; Overview of asset/liability management for financial institutions; Concerns of regulators; Asset management firms; and Hedge funds.

### Unit 3: Depository Institutions

LH 8

Asset/liability problems of depository institutions; Commercial banks – services, bank funding, capital requirement for banks; Savings and loan associations—assets, funding, and regulation; Savings banks; Credit unions; and Classification of depository institutions in Nepal.

### Unit 4: The Central Bank and Monetary Policy

LH 10

The central bank and its purposes; Instruments of monetary policy; Different kinds of money; Money and monetary aggregate; The money multiplier—the expansion of the money supply; The impact of interest on money supply; and The money supply process in an open economy; Monetary policy: concept and goals of monetary policy, trade-offs and conflicts among policies, goals and types of targets, and Nepal Rastra Bank and monetary policy of Nepal.

**Unit 5: Insurance Companies****LH 15**

Meaning; Types of insurance; Insurance company versus types of products; Fundamentals of the insurance industry; Regulation of insurance industry; Structure of insurance companies; Forms of insurance companies—stock and mutual; Individual versus group insurance; Types of life insurance; General account and separate account products; Participating policies; Insurance company investment strategies; Changes in insurance industry; Evolutions of insurance, investment and retirement products; Insurance industry in Nepal; and Regulation and supervision mechanism in Nepal.

**Unit 6: Investment Companies and Pension Funds****LH 15**

Types of investment companies—open-end funds, closed-end funds; unit trusts; Funds sales charges and annual operating expenses; Multiple shares classes; Economic motivation for funds; Types of funds by investment objectives; The concept of family of funds; Investment vehicles for mutual funds; Mutual fund costs; Taxation of mutual funds; Regulation of funds; Structures of a funds; Recent changes in mutual funds; Alternatives to mutual funds—exchange traded funds; Mutual funds versus exchange traded funds; Investment companies in Nepal; Concept of pension funds; Types of pension plans—defined-benefit plan, defined-contribution plan, and hybrid pensions plans; and Practices of pension plan in Nepal.

**Unit 7: Determinants of Asset Prices and Interest Rates****LH 15**

Properties of financial assets; Principles of pricing of financial assets; Price volatility of financial assets; The theories of interest rates—Fisher's classical theory, the loanable funds theory, and the liquidity preference theory; The determinants of the structure of interest rates; The yield curve and the term structure; Forward rates; and Determinants of the shape of the term structure.

**Unit 8: Organization and Structure of Markets****LH 10**

Primary markets: the traditional process for issuing new securities, regulation of the primary market, variation in the understanding of process, and private placement of securities; Secondary markets: functions of secondary markets; Perfect markets; Roles of brokers and dealers in real market; Market efficiency; Electronic trading; and Primary and secondary markets in Nepal.

**Unit 9: Market for Government Securities****LH 10**

Markets for treasury securities: types of treasury securities, the primary markets—auction cycles, determination of the results of an auction, primary dealers, submission of bids; Secondary market; stripped treasury securities; Municipal securities markets: types and features of municipal securities, municipal bond ratings, the primary and secondary markets for municipal securities, and yields on municipal bonds; and Government securities and markets in Nepal.

**Unit 10: Markets for Common Stock****LH 10**

Trading mechanics; Transaction costs; Trading arrangement for retail and institutional investors; Basic functioning of stock markets; Stock market indicators; Pricing efficiency of the stock markets; Exchange market structures; Stock market and over-the-counter markets; Off-exchange markets; and Common stock market in Nepal.

**Unit 11: Market for Corporate Senior Securities****LH 10**

Concept of corporate senior securities; Credit risk; Commercial paper—concept, issuers of commercial paper; Medium term notes; Banks loans; Corporate bonds: overview of concept and features, bonds with special features, corporate bond credit rating; Eurobond market; Preferred stock: features, adjustable-rate preferred stock; Negotiable CDs; and Bankers acceptance.

**Unit 12: The Mortgage and Asset-backed Securities Markets****LH 10**

Concept of mortgage and mortgage markets; Mortgage origination; Types of mortgage; Investment risks; Concept of mortgage-backed securities; Agency pass-through securities; Collateralized mortgage obligations; Accrual bonds; Stripped mortgage-backed securities; Asset-backed securities markets: concept of asset-backed securities and securities markets, creation of an asset backed security, collateral types and securitization structure, non-mortgage types of ABS, credit risks associated with investing in ABS, securitization and the impact on financial markets.

**Unit 13: Risks of Financial Institutions****LH 10**

Concept of risk; Types of risk: interest rate risk, market risk, credit risk, off-balance-sheet risk, foreign exchange risk, sovereign risk, technology and operational risks, liquidity risk, insolvency risk and other risks.

**Project Work****LH 10**

After the completion of fourth year concentration classes the students shall have to prepare and submit a project work in the area they have specialized. The subject teachers have to discuss with students on possible topics of the project work, availability and sources of literature, availability of data, data collection methods, appropriate tools of data analysis, etc relevant to the subject within 10 lecture hours.

**Text and Reference Books**

Fabozzi, F. J., Modigliani, F., Jones, F. J., & Ferri, M. *Foundations of financial markets and institutions*. Delhi: Dorling Kindersley (India) Pvt. Ltd.

Saunders, A. & Cornett, M. M. *Financial markets and institutions*. New York: McGraw Hill Irwin.

Meir, K. *Financial institutions and markets*. Delhi: Oxford University Press India.

Madura, J. *Financial institutions and markets* Delhi: Cengage Learning India Private Limited.

Klob, R. & Rodriguez, R. J. *Financial institutions and markets*. Cambridge: Blackwell Publishers Inc.

Shrestha, M. K. , Bhandari, D. B. & Joshi, P. R. *Foundation of Financial Institutions & Markets*. Kathmandu: Asmita Books Publishers & Distributors (P) Ltd.

Bhattarai, J., & Ghimire, S. R. *Financial markets and institutions*. Kathmandu: K. P. Pustak Bhandar.

Bhole, L. M. & Mahakud, J. *Financial institutions and markets*. Delhi: Tata McGraw Hill Education Pvt. Ltd.