

BA 4819/5819 – Financial Institutions and Markets

Course Schedule: Monday and Wednesday 10:40-11:55 at G 107

<b>Instructor:</b>	Dr. Hande Ayaydın Hacıömeroğlu
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<b>Office Hours:</b>	Monday and Wednesday 14:40-15:55
<b>Course Web Page:</b>	<a href="https://odtuclass.metu.edu.tr/">https://odtuclass.metu.edu.tr/</a> Students are a natural member of ODTU Class. All the course material including power point slides and solutions to end of chapter problems, your grades, assignments and announcements will be posted there. In order to not to miss anything, please check your METU email accounts regularly.
<b>Course Description:</b>	
<p>Analysis of financial intermediation and the determination of interest rates. Businesses, consumers, and governments in money and capital markets are observed with emphasis on financial instruments. International financial markets are discussed. The purposes and functions of central banking are studied with primary attention to monetary policy.</p> <p>For this course, as a prerequisite, students should have taken BA 2802 – Principles of Finance with a semester grade of at least DD, or BA 5802 - Financial Management with a semester grade of at least CC, or, an equivalent finance course with a passing grade.</p>	
<b>Course Student Learning Objectives: (CSLO)</b>	
<p><i>Upon successful completion of this course, students should be able to:</i></p> <p><b>Course Specific Skills:</b></p> <ol style="list-style-type: none"> <li>1. Understand how financial systems work and why financial markets and institutions exist</li> <li>2. Describe the reasons of interest rates change</li> <li>3. Explain how future interest rates are determined</li> <li>4. Understand how central banks employ monetary policy and affect the interest rates</li> <li>5. Know details about different financial markets (which are the money, bond, stock, mortgage and foreign exchange markets) and the financial instruments traded in these financial markets</li> <li>6. Discuss the reasons why financial institutions exist</li> <li>7. Know the structure of commercial banking industry and understand how commercial banks operate</li> <li>8. Discuss basics of mutual funds, investment banks and venture capitals</li> <li>9. Understand the risk management practices in commercial banks</li> </ol> <p><b>Discipline Specific Skills:</b></p> <ol style="list-style-type: none"> <li>10. Develop skills in understanding how different financial markets and institutions operate</li> </ol> <p>Develop an understanding of:</p> <ol style="list-style-type: none"> <li>11. Reasons of financial crises</li> <li>12. Importance of the financial intermediation for the economy</li> <li>13. How financial instruments are transacted in the financial markets</li> </ol> <p><b>Personal and Key Skills:</b></p> <ol style="list-style-type: none"> <li>14. Develop problem solving skills</li> <li>15. Develop writing and discussion skills</li> </ol>	
<b>Learning and Teaching Methods:</b>	
This course is going to make use of formal lectures, in-class discussions, quizzes and problem solving.	
<b>Required Reading:</b>	
Mishkin, F. S. and Eakins, S. G. <u>Financial Markets and Institutions</u> , 8 <sup>th</sup> Edition, Global Edition, 2016, Pearson International Edition.	

<b>Assessment and Grading:</b>				
<b>Form of Assessment</b>	<b>% Contribution</b>	<b>Size of the assessment</b>	<b>CSLOs covered by this assessment</b>	<b>Feedback Method</b>
Written Examination 1	20	120-minute essay-type examination	1, 2, 3, 4, 5, 10, 11, 12, 13, 14, 15	Written and oral (during office hours)
Written Examination 2	20	120-minute essay-type examination	5, 6, 10, 11, 12, 13, 14, 15	Written and oral (during office hours)
Written Examination 3	20	120-minute essay-type examination	6, 7, 8, 9, 10, 11, 12, 13, 14, 15	Written and oral (during office hours)
Quizzes	10	15-minute essay-single question examination during class hours	1, 2, 3, 4, 5, 6, 7, 8, 9, 10, 11, 12, 13, 14, 15	Written and oral (during office hours)
Article Reading, Report Writing and Discussion (Total of 3)	24	Article reading and summarizing in a 3-page report	1,6,7,14,15	Written and oral (during office hours)
Attendance and Class Participation	6	Class participation during regular lectures	1, 2, 3, 4, 5, 6, 7, 8, 9, 10, 11, 12, 13, 14, 15	Oral (in class)

No “extra” work above the aforementioned will be accepted or credited.

**Important Note About Re-sit (Bütünleme) Exams:** Please note that re-sit exams are no longer given at METU.

**Incompletes:** A grade of incomplete will not be granted except for the most extreme circumstances and only after stringent verification and approval by the Department. A grade of incomplete will be granted only as a result of circumstances beyond the student's control. A grade of "I" is not given in lieu of an "FF".

#### **Course Policies:**

**Course Requirements:** The students will be assigned readings from the textbook and are expected to come to class prepared and ready to take part in class discussions.

**Attendance:** Attendance is mandatory in this class. **In order to get full marks from the attendance and class participation you should attend the lectures and participate the lectures.** Past experience repeatedly demonstrated that students who regularly attend class and read the chapter assignments perform significantly better than students who have an intermittent attendance and/or who do not keep current in reading the chapters.

**Exams:** There will be two interim exams and a final exam in this course. The exams will be closed notes closed book basis.

**Makeup Examinations:** If you miss an exam you should prove that you have a valid reason with a valid document, i.e. doctor report. In these circumstances, please make sure you notify me before the exam or as soon as possible after the exam. **All students who missed an exam with a valid reason during the semester will be asked to take a comprehensive exam that will be given during the period of final exams regardless of which exam they missed during the semester.**

**Article Reading and Report Writing Assignment:** The students will discuss three articles in a written (word processed) document. The reports cannot be longer than 3, 1.5 spaced pages and the students cannot use font sizes smaller than 12. **These articles will also be discussed during the lecture.**

**Article 1:** Akerlof, G. A. , “The market for “Lemons”: Quality Uncertainty and the Market Mechanism”, The quarterly Journal of Economics, 84, 488-500.

**Article 2:** Allen, F. and Santomero, A. M., “The theory of financial intermediation”, Journal of Banking&Finance, 21, 1461-1485

**Article 3:** Allen F., “Do Financial Institutions Matter?”, The Journal of Finance, 24, 1243-1251

**Reading Assignments:** The following pages give the schedule for the reading assignments. The lectures will stress the most important and/or most difficult material.

**Presentation Slides:** A copy of the presentation slides is available at the course web page. These slides can be used as chapter summaries and utilized while taking down notes during class.

**STUDENT DISABILITIES:** Any student, who, because of a disabling condition, may require special arrangements in order to meet course requirements, should contact the instructor as soon as possible. Students should present the appropriate documentation from the university’s Disability Support Office (Engelsiz ODTÜ Birimi, ODTÜ Kütüphanesi, Solmaz İzdemir Salonu, Tel: 210.7196; [engelsiz@metu.edu.tr](mailto:engelsiz@metu.edu.tr)) verifying their disability, and outlining the special arrangements required. Please note that no accommodations will be provided to the disabled students prior to the completion of this approved University process.

**ACADEMIC DISHONESTY:** The Department of Business Administration has no tolerance for acts of academic dishonesty. Such acts damage the reputation of METU, the department and the BS/MBA degree and demean the honest efforts of the majority of the students. The minimum penalty for an act of academic dishonesty will be a zero for that assignment or exam.

**CHEATING:** All university, faculty/institute, and department principles on academic honesty will be strictly enforced. The usual consequence for academic dishonesty is failure of the course and referral of the case to the Dean of the Faculty or the Graduate School of Social Sciences for additional disciplinary action. Examinations are individual and are to be completed without outside assistance of any sort. Persons observed cheating during examinations will receive a failing grade in the course. Homework assignments are individual, unless otherwise specified by the instructor, and are to be completed without outside assistance of any sort, as well. Persons observed cheating in their homework assignments will receive a score of zero for the portion of the semester grade that is allocated to such assignments.

**PLAGIARISM:** The instructor assumes that students will do their own work. By placing their names on assignments (individual or team), students are affirming that the contents are their original work. Any previous work available from files or past students, as well as materials available on the internet may be used only as a suggestive model. Violation of this provision will be considered as unethical behavior, subject to disciplinary action. If you have any doubt about the use of a specific material, see the instructor ahead of time. Any material used from outside sources should be referenced appropriately. Persons observed to plagiarize while preparing assignments will be referred to the Dean of the Faculty or the Graduate School of Social Sciences for additional disciplinary action and also they will receive a score of zero for the portion of the semester grade that is allocated to such assignments.

### **METU HONOR CODE**

Every member of METU community adopts the following honor code as one of the core principles of academic life and strives to develop an academic environment where continuous adherence to this code is promoted.

"The members of the METU community are reliable, responsible and honorable people who embrace only the success and recognition they deserve, and act with integrity in their use, evaluation and presentation of facts, data and documents."

**CIVILITY IN THE CLASSROOM:** Students are expected to assist in maintaining a classroom environment which is conducive to learning. In order to assure that all students have an opportunity to gain from time spent in class, unless otherwise approved by the instructor, students are prohibited from using laptop computers and cellular phones, making offensive remarks, reading newspapers, sleeping, or engaging in any other form of distraction. Inappropriate behavior in classroom shall result, minimally, in a request to leave class.

Past observations showed that the METU classroom experience is improved when the following are true:

**Students arrive on time.** Timely arrival ensures that classes are able to start and finish at the scheduled times. Timely arrival shows respect for both fellow students and faculty and it helps to create a better learning environment by reducing avoidable distractions.

**Students are fully prepared for each class.** Much of the learning in this course takes place during classroom discussions. When students are not prepared, they cannot contribute to the learning process. This affects not only the individual but also the classmates who count on them.

**Students respect the views and opinions of their colleagues.** Disagreement and debate are encouraged; however, intolerance for the views of others is unacceptable.

**Laptops, phones and wireless devices are turned off.**

**STUDENT EXCUSES:** Unless you inform me in advance, I will not excuse you from any of the grade requirements. At the same time, this does not mean that I will allow you to miss a test or an assignment with any excuse that you present to me. Please note that the excuse is acceptable for only the most extreme circumstances and only after stringent verification and approval by the Department.

**KNOW YOUR RIGHTS AND RESPONSIBILITIES!** <http://oidb.metu.edu.tr/en/academic-rules-and-regulations>

**NOTE THE IMPORTANT DATES ON THE ACADEMIC CALENDAR!**  
<http://oidb.metu.edu.tr/en/academic-calendar>

The instructor assumes that students who attend the next class have understood and accepted to agree with all the requirements and rules of this course.

**Good luck to all of you and let's have a very enjoyable semester together!!**

**Don't be Trashy. Recycle.**

Do not throw items away in the trash that should go into the recycling bin.  
Show a little class.

**REDUCE, REUSE, RECYCLE!**

The following table gives the tentative schedule for the semester. The lectures will stress the most important and/or most difficult material. The students are required to read the chapters before they are covered in class.

Tentative Course Schedule				
Month	Day	Topic	Reading/ Assignment	CSLO
February	16	Introduction Overview of the Financial System	Chapter 2	1, 10
	18	Why do Interest Rates Change?	Chapter 4	2,3
	23	How do Risk and Term Structure Affect Interest Rates?	Chapter 5	2,3
	25	How do Risk and Term Structure Affect Interest Rates? (cont.'d)	Chapter 5	2,3
March	2	Conduct of Monetary Policy: Tools, Goals, Strategy, and Tactics	Chapter 10	4
	4	Conduct of Monetary Policy: Tools, Goals, Strategy, and Tactics (cont.'d)	Chapter 10	4
	9	The Money Market	Chapter 11	5, 10, 13
	11	The Bond Market	Chapter 12	5, 10, 13
	16	The Stock Market	Chapter 13	5, 10, 13
March	18	<b>No-Class</b> <b>Written Examination 1 at 18.00</b> <b>Chapters Included: 2, 4, 5, 10, 11, 12</b>		
	23	The Mortgage Market	Chapter 14	5, 10, 13
	25	The Mortgage Market (cont.'d)	Chapter 14	5, 10, 13
	30	The Foreign Exchange Market	Chapter 15	5, 10, 13
April	1	The Foreign Exchange Market (cont.'d)	Chapter 15	5, 10, 13
	6	Why do Financial Institutions Exist?	Chapter 7	6, 12
April	8	<u><a href="#">Article 1: Report Writing and In-Class Discussion Assignment</a></u>		
	13	Why do Financial Crises Occur and Why are They so Damaging to the Economy)	Chapter 8	6, 11, 12
	15	Banking and Management of Financial Institutions	Chapter 17	7, 12
	20	Banking Industry: Structure and Competition	Chapter 19	7
April	22	<b>No-Class</b> <b>Written Examination 2 at 18.00</b> <b>Chapters Included: 13, 14, 15, 7, 8</b>		
	27	Banking Industry: Structure and Competition (cont.'d)	Chapter 19	7
April	29	<u><a href="#">Article 2: Report Writing and In-Class Discussion Assignment</a></u>		
May	4	The Mutual Fund Industry	Chapter 20	8, 10, 12
	6	The Mutual Fund Industry (cont.'d)	Chapter 20	8, 10, 12
	11	Investment Banks, Security Brokers and Dealers, and Venture Capital Firms	Chapter 22	8, 10, 12
	13	Investment Banks, Security Brokers and Dealers, and Venture Capital Firms (cont.'d)	Chapter 22	8, 10, 12
	18	Risk Management in Financial Institutions <i>Chapter 3-The Practicing Manager</i> <i>Calculating Duration to Measure Interest Rate Risk</i>	Chapter 23	9
	20	Risk Management in Financial Institutions (cont.'d)	Chapter 23	9
May	25-27	<b>No Class-Religious Holiday</b>		
June	1	<u><a href="#">Article 3: Report Writing and In-Class Discussion Assignment</a></u>		
June	3	<u><a href="#">Questions&amp; Answers</a></u>		
June	11	<b>Written Examination 3 at 09.30</b> <b>Chapters Included: 17, 19, 20, 22, 23</b>		