

# Introduction to the Financial System



## 8 Virtual Banks in Hong Kong

You may enjoy the service of the 8 virtual banks via their apps on Apple App Store and Google Play Store. By visiting their official webpage, you could learn more about their backgrounds, promotions and contact information, etc.

In alphabetical order, the 8 banks are:

1. Airstar Bank,
2. Ant Bank,
3. Fusion Bank,
4. Livi Bank,
5. Mox,
6. Ping An OneConnect Bank,
7. WeLab Bank, and
8. ZA Bank.



What does this mean?



[https://en.wikipedia.org/wiki/Direct\\_bank](https://en.wikipedia.org/wiki/Direct_bank)

<https://www.bowtie.com.hk/blog/en/virtual-bank-hong-kong/>



### VIRTUAL BANKING

## Meet Hong Kong's 8 New Virtual Banks

by Fintech News Hong Kong / May 10, 2019



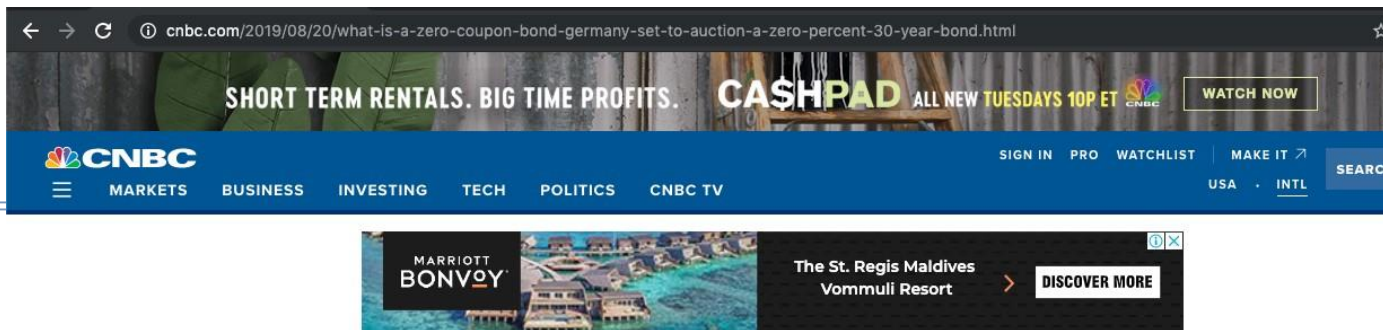
Hong Kong Monetary Authority (HKMA) has announced a grand total of eight virtual banking license recipients, in **three separate announcements** so far.

Despite the rumoured 29 hopefuls vying for the license, it's likely that HKMA will only be granting licenses to at most, 8 applicants, which quota has been fulfilled as of yesterday.

With the intention of launching their Hong Kong offering within 6 to 9 months, those selected to pass the reportedly **high benchmarks** set by HKMA for its virtual banking license are:

Or:

The evening news features a segment about the bond market and interest rates.



What does this mean?



#### MARKETS

## Germany sells a zero-percent 30-year bond for the first time

PUBLISHED TUE, AUG 20 2019 • 8:49 AM EDT | UPDATED WED, AUG 21 2019 • 5:47 AM EDT



Spriha Srivastava  
@SPRIHA

SHARE f t in ✉ ...

#### KEY POINTS

- The bond sale that took place at 10:30 a.m. London time will mean the German government will not make any interest payments to those buying the bond until it matures in August 2050.
- A zero-coupon bond from the German government is an option for investors to park their money in a longer term safe-haven asset and lock their cash for a 30-year period amid global uncertainties.

Germany will auction a [30-year bond](#) with a 0% interest rate for the first time on Wednesday.

The bond sale that took place at 10:30 a.m. London time will mean the German government will not make any interest payments to those buying the



[https://en.wikipedia.org/wiki/Bond\\_\(finance\)](https://en.wikipedia.org/wiki/Bond_(finance))

# Why Study Financial Markets?

Financial markets are crucial in our economy.

1. **Channel funds** from **savers** to **investors**, promoting economic efficiency.
2. Market activity affects: personal wealth, business firms, and economy
3. Well functioning financial markets are key factors in producing high economic growth.



# Why Study Financial Markets?

## *Debt Markets & Interest Rates* (1 of 4)

- **Debt markets** allow governments, corporations, and individuals to **borrow**.
- Borrowers issue a **security**, called a **bond**, offering **interest and principal** over time.
- The interest rate is the cost of borrowing.



[https://en.wikipedia.org/wiki/Bond\\_\(finance\)](https://en.wikipedia.org/wiki/Bond_(finance))





# Why Study Financial Markets?

## *Debt Markets & Interest Rates* (2 of 4)

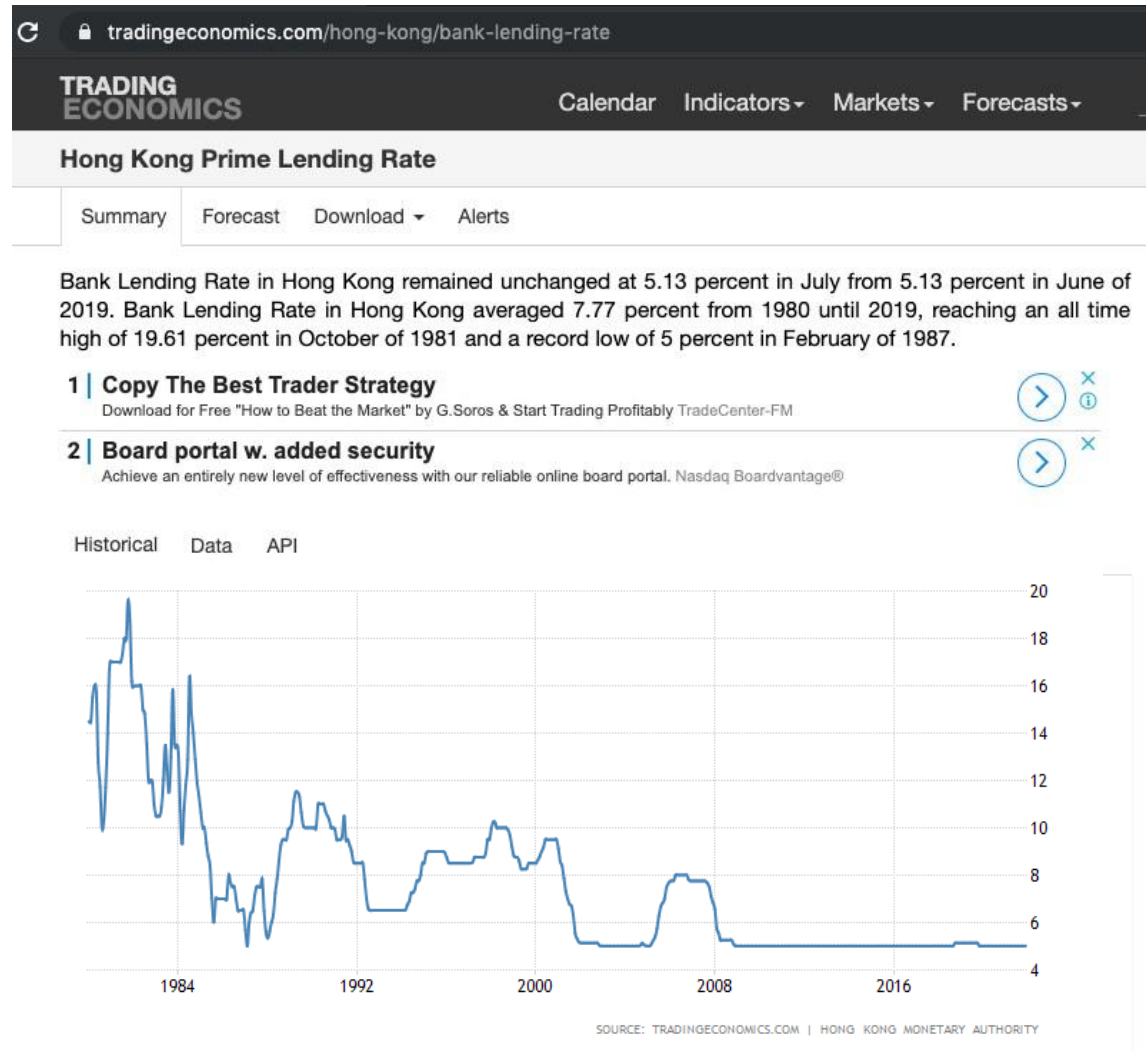
- Many types of market interest rates: mortgage rates, car loan rates, credit card rates, etc.
- The level of these rates are important. For example, mortgage rates in the early part of 1983 exceeded 13%.
- Understanding the history of interest rates is beneficial.

➔ All these affect our lives, and they also affect your future jobs, especially when you will work in the financial sector.



# Why Study Financial Markets?

## *Prime Rate - Hong Kong (1981-2019)* (3 of 4)

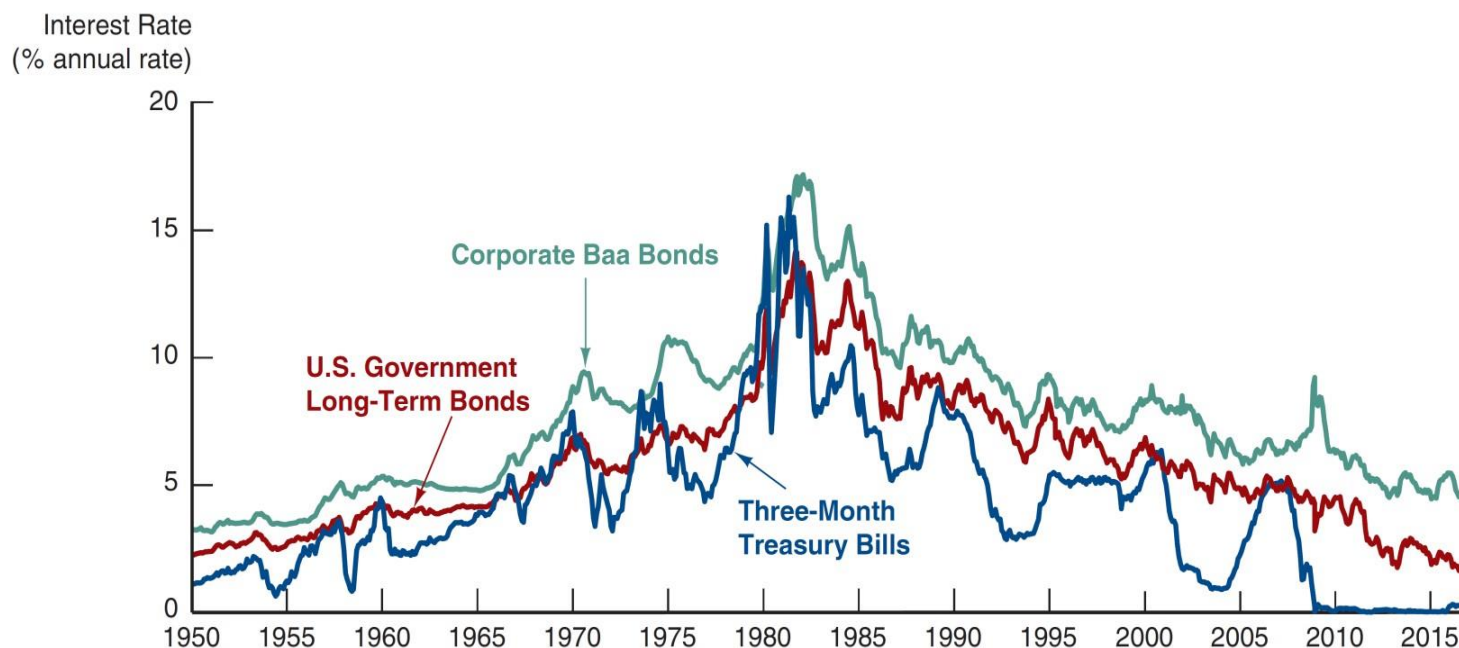


[https://en.wikipedia.org/wiki/Prime\\_rate](https://en.wikipedia.org/wiki/Prime_rate)

[Hong Kong Prime Rate](#)

# Why Study Financial Markets?

## *Interest Rates on Selected Bonds, 1950–2016* (4 of 4)



Source: Federal Reserve Bank of St. Louis, FRED database:

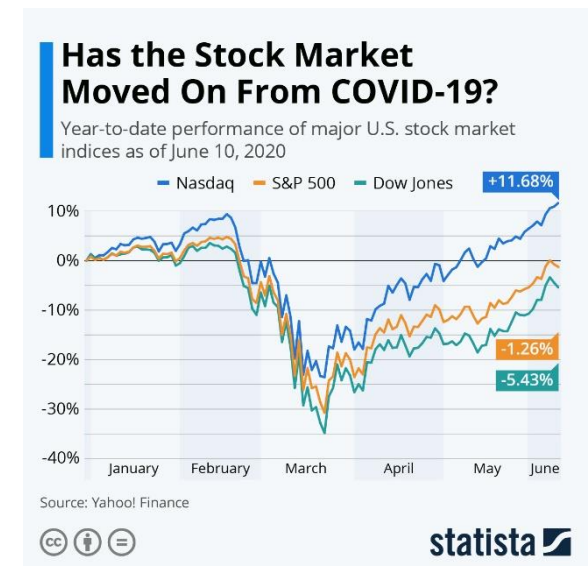
<https://fred.stlouisfed.org/series/TB3MS>; <https://fred.stlouisfed.org/series/GS10>; <https://fred.stlouisfed.org/series/BAA>.



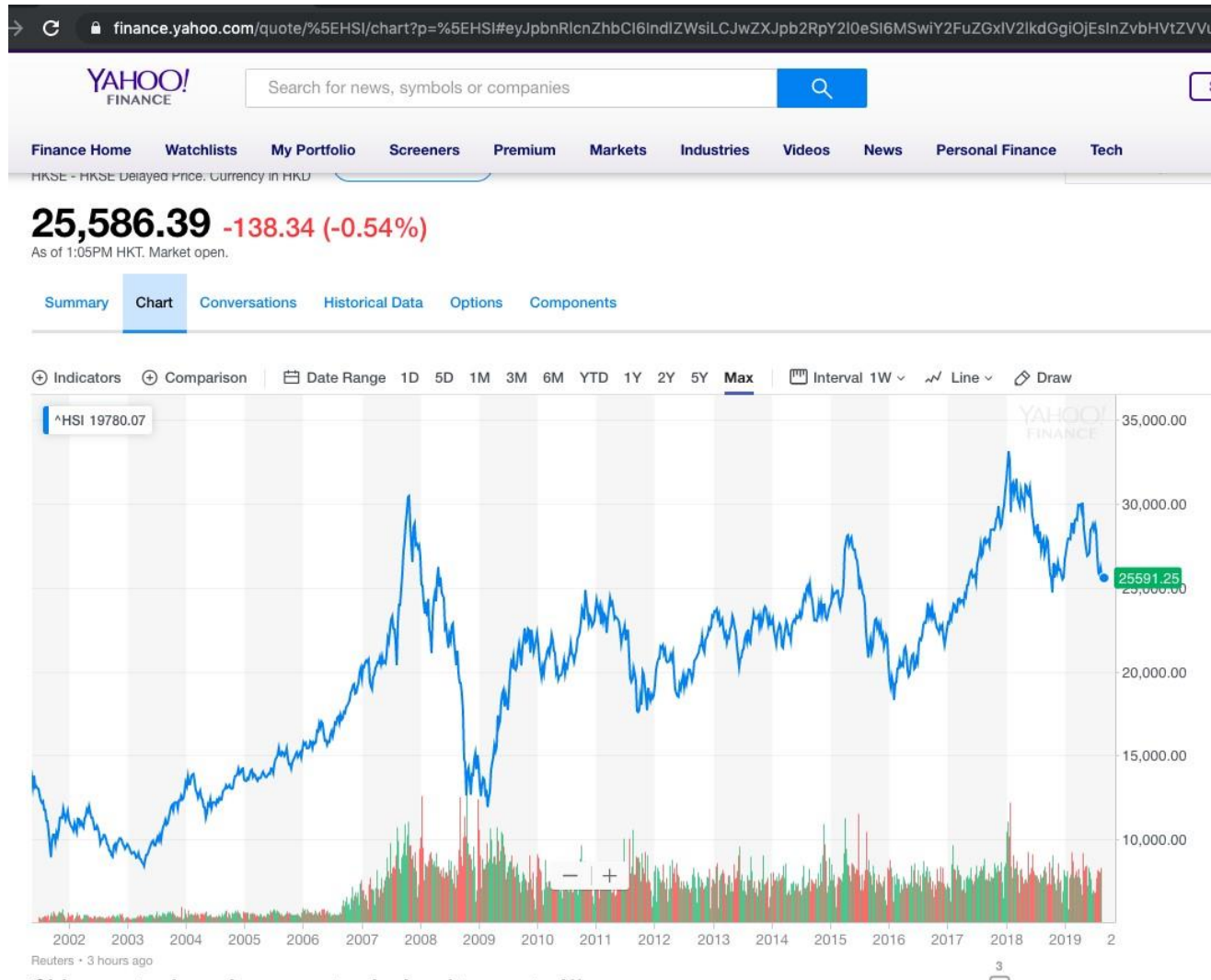
# Why Study Financial Markets?

## *The Stock Market* (1 of 4)

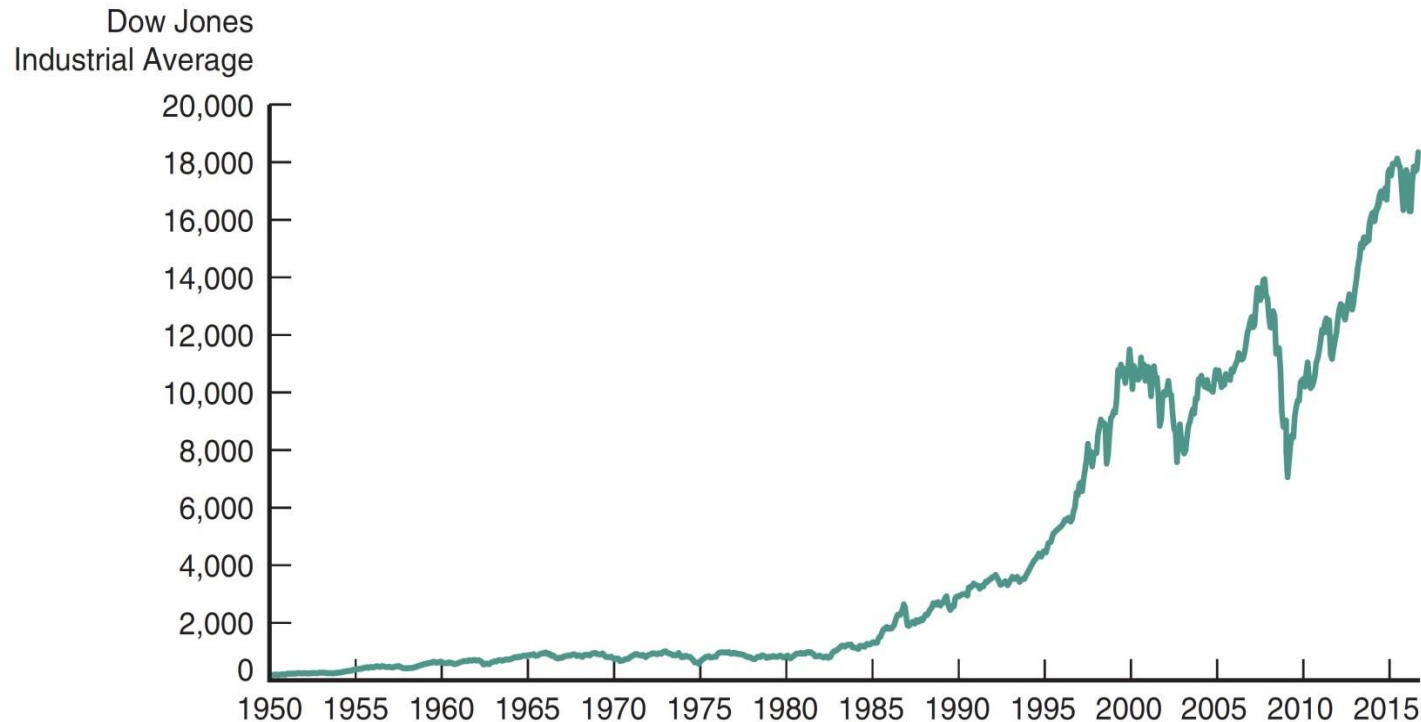
- The stock market is the market where common stock (or just stock) are traded.
- Companies initially sell stock (in the primary market) to raise money. After that, the stock is traded among investors.
- The stock market receives the most attention from the media.



# Hang Seng Index 2002 - 2019



# Stock Prices as Measured by the Dow Jones Industrial Average, 1950–2016



Source: Federal Reserve Bank of St. Louis, FRED database: <https://fred.stlouisfed.org/series/DJIA>.

# Why Study Financial Markets?

## *The Stock Market* (4 of 4)

- Companies, not just individuals, also watch the market.
  - Often seeking additional funding

# Why Study Financial Market?

## *The Foreign Exchange Market* (1 of 3)

- The foreign exchange market is where international currencies trade and exchange rates are set.
- Although most people know little about this market, it has a **daily** volume around US\$6.6 trillion! (6,600,000,000,000)

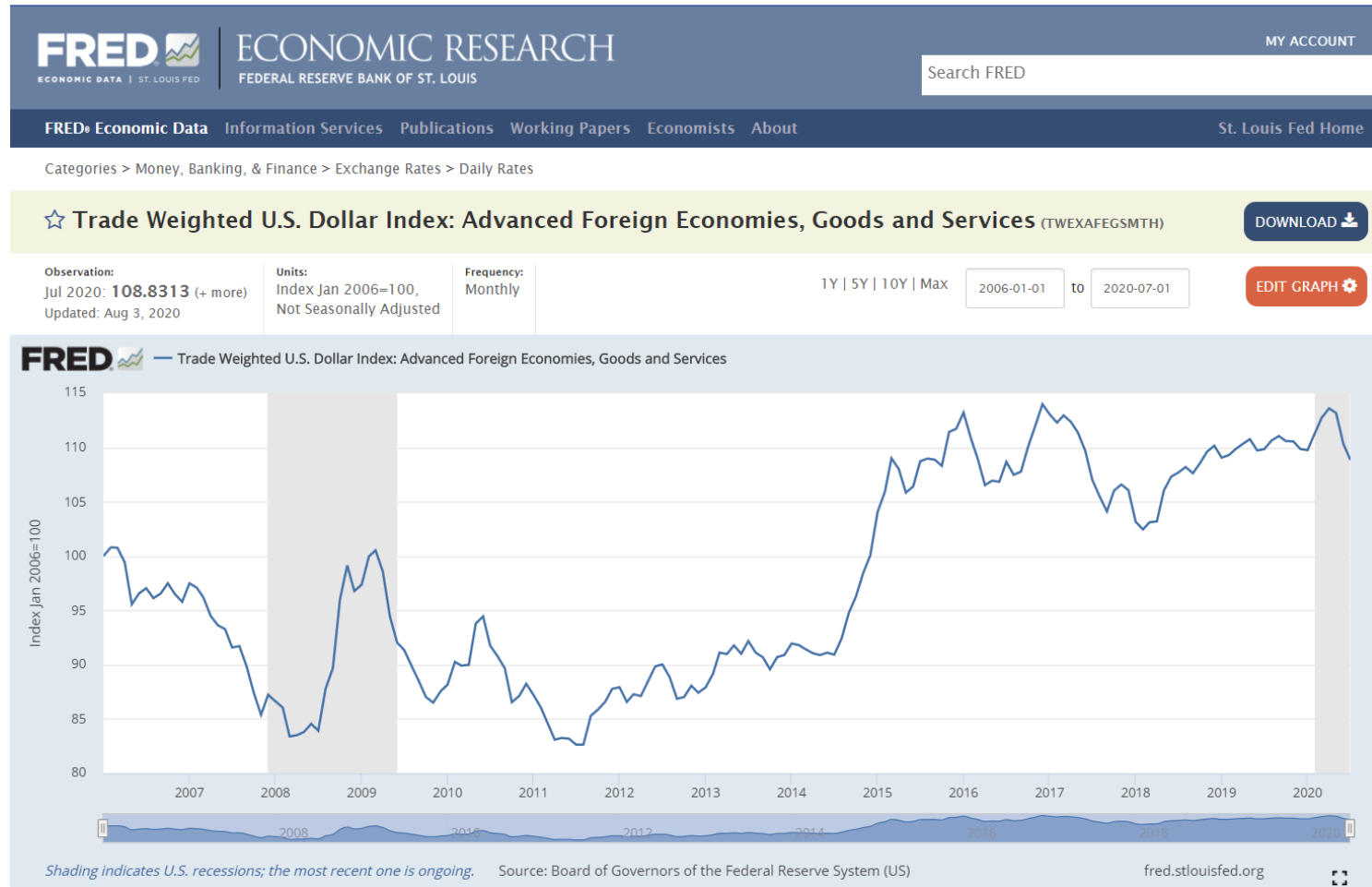


[https://en.wikipedia.org/wiki/Foreign\\_exchange\\_market](https://en.wikipedia.org/wiki/Foreign_exchange_market)

<https://www.investopedia.com/articles/forex/11/who-trades-forex-and-why.asp>



# Exchange Rate of the U.S. Dollar, 2006-2020



Source: Federal Reserve Bank of St. Louis, FRED database: <https://fred.stlouisfed.org/series/TWEXAFEGSMTH>



# Why Study Financial Markets?

## *The Foreign Exchange Market* (3 of 3)

- These fluctuations matter!
  - In recent years, consumers have found that vacationing in Europe is expensive, due to a weakening dollar relative to the Euro.
  - When the dollar strengthens, foreign purchase of domestic goods falls.

# Why Study Financial Institutions? (1 of 2)

We will also spend considerable time discussing financial institutions - the corporations, organizations, and networks that operate the so-called “marketplaces.” We will look at:

## 1. Structure of the Financial System

- Helps funds move from savers to investors, typically through financial intermediaries

## 2. Financial Crises (if we have time)

- The “Great Recession” of 2007–2009 was the worst financial crisis since the Great Depression. Why did it happen?

## 3. Central Banks and the Conduit of Monetary Policy

- The role of the Fed (Federal Reserve System), and foreign counterparts, in the management of interest rates and the money supply

## 4. The International Financial System

- Capital flows between countries impacts domestic economies
- Need to understand exchange rates, capital controls, and the role of agencies such as the [International Monetary Fund \(IMF\)](#).

# Why Study Financial Institutions? (2 of 2)

## 1. Banks and Other Financial Institutions

- Includes the role of insurance companies, mutual funds, pension funds, etc.

## 2. Financial Innovation

- Focusing on improvements in technology and the impact on financial product delivery

## 3. Managing Risk in Financial Institutions

- Focusing on risk management in the financial institution

Please do the Class Review Quiz of  
Week 1