## BCOM 330: FINANCIAL INSTITUTIONS AND MARKETS

Financial institutions and markets channel Billions of Shillings through the economy, affecting business and consumer decisions and the economic well being of our country, Kenya and foreign countries as well. The purpose of this course is to guide students in developing critical thinking skills as applied to financial institutions and markets. Topics include the regulatory frameworks of financial institutions; Interest rates and the term structure of interest rates; the efficient markets hypothesis; financial derivatives, exchange rates, risk and evaluation of financial institutions/ markets.

**COURSE OUTLINE**

1. Introduction to financial institutions and markets.
   1. Financial institutions and markets in Kenya.
   2. Funds flow within the financial system.
   3. The role of financial institutions and markets in the economy- overview.
2. Regulatory framework of financial institutions and markets.
   1. Regulatory framework in Kenya.
   2. Comparative study: Regulatory frameworks in Britain, Australia and Mauritius.
   3. Case for and case against consolidated regulatory framework.
3. Financial market instruments
   1. Money market Instruments.
   2. Capital market instruments.
   3. Derivatives (Introduction to Risk management using derivative securities)
   4. Investment banks and mutual funds products (Unit Trusts).
   5. Real Estate (With emphasis on real estate investment trusts- REITS).
   6. Other Investment options.
4. Organization and functioning of securities markets.
5. The theory of rational expectations and the efficient market hypothesis.
6. The foreign Exchange markets.
7. Interest rates- YTM, YTC, Yield on a discount basis, The Yield Curve, factors that affect interest rates.
8. Risks of financial institution and markets.
9. Performance evaluation of financial markets.
   1. Market Indices, Calculating market indices: Price weighted vs. Market weighted indices, Composite indices
   2. Specific market indices- The Dow Jones Index, S&P Index, NSE 20 Share Index, NASI, NASDAQ and other stock market indices).

**EVALUATION**

Three continuous assessment tests will be administered. CAT 1 will cover topic 1 and 2. CAT 2 will cover topic 3 through topic 5. The third CAT will cover the rest of the outline. In addition, students will write a term paper covering the prudential guidelines for banks/ mortgage finance institutions, and the Basel Accords. Details of the term paper will be discussed in class.

**REFERENCES**

* Reilly - Brown, Investment Analysis and Portfolio Management, 7th edition, Addison Wesley, 2000.
* Mishkin, Frederic S.The economics of money, banking, and financial markets / Frederic S. Mishkin.—7th ed. p. cm. — (The Addison-Wesley series in economics)
* Bodie−Kane−Marcus: Investments, Fifth Edition, The McGraw−Hill Companies, 2001
* Brealey−Meyers: Principles of Corporate Finance, Seventh Edition, The McGraw−Hill Companies, 2003.
* Fabozzi- Peterson, Financial management and analysis, 2nd edition, John Wiley & Sons, Inc., Hoboken, New Jersey (2003).
* Financial Standards Report, Kenya Peer Review Report, April 2009, <www.eStandardsForum.org>
* Mishkin, Frederic and Stanley G. Eakins, Financial Markets & Institutions, 4th edition, Addison Wesley, 2003.
* Other texts in Financial Economics, Investment management and financial management.