

Financial Markets

Overview

This document describes the requirements for the three Group Work Project assignments which must be submitted at the end of week 3, 5, and 7 respectively. Within a week of each submission, your group will receive feedback from the WQU Instructional Team, enabling you to use the feedback to revise your assignment ahead of the second and third submissions. You will use the Group Work Forum to communicate with your peers throughout the course.

Please make use of the [LIRN Library](#) located on the left pane of your screen as the primary resource for your research.

Your research should favor authoritative, scholarly sources, and you must cite all sources where relevant. The task is not to reproduce the research of others, but instead to develop your own systematic narrative that addresses the research topic and is informed by the research of others. Not only are you required to cite accurate and relevant facts, but you must also present your own clear logic when linking and contextualizing these facts.

Visit the [Student Resource Center \(SRC\)](#) where you can find resources on **how to conduct research**, how to use different sources of information, how to **cite references to avoid plagiarism**, and how to use the **MLA citation style**.

Note: All Group Work Project assignments must be submitted via **Turnitin**, the anti-plagiarism software.

Group Work Project Objectives

Submission 1: Perform a research on the Global Financial Crisis to discuss financial market components

Submission 2: Explain the need and impact of regulation in financial markets

Submission 3: Determine the option pricing using the Global Financial Crisis as a case study



Research Topic

What was the Global Financial Crisis and what were the major policy and regulation responses to it? Determine the option pricing in the period of the Global Financial Crisis.

Subtopics

Make sure you integrate the sub-topics listed below into a coherent narrative that addresses the main research topic:

1. The primary causes of the financial crisis of 2007-2008, also known as the Global Financial Crisis
2. The market features and conditions that constitute the Global Financial Crisis in general
3. How the primary causes of the Global Financial Crisis led to the conditions of a financial crisis
4. The response of policymakers and regulators to the Global Financial Crisis
5. The intended effects of policymakers' and regulators' responses
6. Discuss the role each of the following has in the housing market:
 - a. Homebuilders
 - b. Mortgage Lenders
 - c. Mortgage Back Securities (MBS) Structurers
 - d. Realtors (real estate brokers)
 - e. Real Estate Appraisers
 - f. Townships that collect local real estate taxes
 - g. Homeowners using a mortgage
7. If housing prices increase, which stakeholders would tend to have higher income?
8. If borrower's default, which stakeholders faces the most risk?
9. Define systemic risk. What type of systemic risks were in the housing market?
10. Name one specific piece of regulation that minimized or eliminated that risk.



Submission 1: The Global Financial Crisis

Submit a **1000-word review article** systematically describing the Global Financial Crisis and the major policy and regulatory responses to it. Use the list of sub-topics as a guide to organize the content in your article. Keep in mind that preserving an overarching logic and cohesion is an essential aspect of your submission.

Submission Requirements

If you submit multiple files, the PDF file with your report must be uploaded separately from the zipped folder that includes your other files. This allows Turnitin to generate the similarity report.

Submission 2: Evaluation of Regulatory Response

Submit a **2000-word review article** which expands and improves upon Submission 1.

In this submission you must also add a detailed description of one specific regulation, which includes:

1. A specific outline of the regulation itself,
2. the intended effect of the regulation and some context for why it was deemed necessary,
3. an explanation of how this fits into the general theme and rationale of financial regulation,
4. a description of some of the possible downsides and/or intended consequences of the regulation., and
5. a comparison between points 2) and 4)
6. Was this regulation the response to a particular financial crisis?
7. Which of the following behaviors were part of the causes?
 - a. Negligence
 - b. Carelessness
 - c. Bad Assumptions
 - d. Ignorance
 - e. Greed
 - f. Fraud
8. Do you think ethics training across finance would have prevented these problems?
9. Do you think the regulation deters corporations from performing the same actions that led to the crisis?



10. Do you think the underlying problems are intrinsic to one particular individual or corporation, or are they part of the systemic risk?

Make sure to use the feedback your group received for your previous submission. The feedback from your faculty/instructor combined with what you learned in Modules 4 and 5 will help you improve the cohesion and clarity of your paper.

Submission Requirements

If you submit multiple files, the PDF file with your report must be uploaded **separately** from the zipped folder that includes your other files. This allows Turnitin to generate the similarity report.



Submission 3: The Role of Mortgage-backed Securities and Option Pricing

Submit a **3000-word review article** which expands and improves upon Submission 2.

For this submission, you must also add a detailed description of mortgage-backed securities in the context of the Global Financial Crisis, which includes:

1. A detailed and specific outline of mortgage-backed securities themselves,
2. an explanation of why they can be useful financial instruments,
3. an explanation of the role they played in the Global Financial Crisis, and
4. a comparison between 2) and 3), explaining why the potential benefits and uses of mortgage-backed securities did not manifest in the Global Financial Crisis.
5. A mortgage-backed security (MBS) can be carved into different tranches. The equity tranche absorbs the first set of losses. That is, if there are mortgages that do not pay on time, the cash flows will not be paid to the tranche holders. If enough mortgage holders do not pay their mortgage, then the equity tranche would be wiped out entirely. This equity tranche's loss occurs before there is any loss to the junior tranche. Similarly, the junior tranche absorbs the next set of losses. If there are more mortgage holders defaulting, then the junior tranche would be wiped out entirely before there is any loss to the senior tranche. For the senior tranche to lose any promised return, both the equity tranche and the junior tranche would have to have lost all their stated earnings.
 - a. What are the advantages and disadvantages of a senior tranche?
 - b. What are the advantages and disadvantages of a junior tranche?
 - c. What are the advantages and disadvantages of an equity tranche?
6. Suppose the mortgages in the MBS have very low default correlation (close to 0).
 - a. Is the senior tranche a relatively safe investment?
 - b. Is the equity tranche a relatively high-risk investment?
7. Suppose the mortgages in the MBS have very high default correlation (close to 1).
 - a. Is the senior tranche a relatively safe investment?
 - b. Is the equity tranche a relatively high-risk investment?



8. Using the 2007-2008 data provided¹ in your course room, you must include an Excel spreadsheet with the option pricing when the financial crisis started. Use the Black Scholes Merton model and Binomial models to calculate the price of European call and put options.

For this final submission, you are expected to formalize your earlier work into a professional review article with the following structure: an abstract, keywords, an introduction, two-to-four core sections (used to structure your research), and a conclusion. Use the feedback you have received, and apply the knowledge and context you have developed during the course by calculating the option pricing.

In addition to the specific instructions provided for each submission, your goal is to address the research topic in the clearest, systematic, and thorough way possible.

Submission Requirements

Submit the following for your assignment:

- A 3,000-word review article in PDF format, **separate** from the rest of the documents
- Excel spreadsheets with your calculations

Note: The PDF file with your report must be uploaded **separately** from the zipped folder that includes your other files. This allows Turnitin to generate the similarity report.

¹ Download the “2007-2008_Data_Group_Work_Submission_3.xlsx” provided in the Group Work Project activity, Course Overview section along with the Group Work Project Requirements.

