LANCASTER UNIVERSITY

Management School

Department of Accounting and Finance

**AcF 304: Financial Markets**

Lent Term 2023/2024

**Module objectives**

This is a 15-credit module with the pre-requisite course AcF 214 ‘Principles of Finance’. The objective of this optional course is to offer an introduction to the workings of today’s financial markets built on a theoretical base. Moving beyond the descriptions and definitions provided by other textbooks and UK university courses in the field, AcF 304 ‘Financial Markets’ encourages students to understand the connection between the theoretical concepts and their real-world applications today. Accordingly, this module prepares students for successful careers in the financial services industry or successful interactions with financial institutions, whatever their future careers.

**Learning outcomes**

The course is multi-asset class in nature covering the full range of financial instruments and how various financial institutions use such financial products. This course has a strong tilt towards combining theory with practice and reference to mini-case studies and recent financial news and developments are made throughout the course. Students are expected to follow financial markets throughout the module and such knowledge is included in the module assessment. Guidance will be clearly given on this topic. The course has a combined practical, qualitative and quantitative approach.

1. Understand why financial markets and institutions exist and why the financial system has evolved into its current format including how financial crisis has shaped this.
2. Develop understanding of key fundamentals of financial markets around interest rates.
3. Understand the role of central banks and the conduct of monetary policy in today’s markets.
4. Gain a solid grounding in Money Markets, Bond Markets, Stock Markets, Mortgage Bonds, Foreign Exchange, Commodities and Derivative Markets.
5. Understand how financial market trading has evolved to include a substantial electronic trading presence today.
6. Grasp the trends and challenges facing financial market participants today including the impact of financial regulation.
7. Understand the link between various financial asset classes and markets as we follow financial news, trends and price movements throughout the module.

**Reading and E-learning**

1. **The core text to accompany the lectures is**:

Financial Markets and Institutions (FM&I), Global Edition, 9th Edition

Frederic S. Mishkin & Stanley Eakins

ISBN-10: 1292215003 • ISBN-13: 9781292215006

Pearson 2018

Course participants will be expected to have ready access to this book which is available in the library and in electronic form via [Lancaster University Library catalogue](http://onesearch.lancs.ac.uk/), and at Lancaster University bookshops.

1. Reference to various mini-case studies and ‘Web’ exercises, Web sources for charts and tables are made throughout the module.
2. Other reference texts:

Fixed Income represents two topics within the module. Students may wish to further reference:

Fabozzi, Fixed Income Analysis, 2nd Edition, CFA Institute Investment Series, Wiley 2007, ISBN 0-470-05221-X. (Later referred to as [F])

This book is available in the library and in electronic form via [Lancaster University Library catalogue](http://onesearch.lancs.ac.uk/)

It should be noted that the Fabozzi text has a US Fixed Income focus as opposed to the international nature of the module.

1. Supplementary Readings:

Reference to present day financial markets news, events and developments will be made throughout the course and students will be expected to develop commercial awareness to bridge theory with practice. Following the financial press is expected and guidance will be given here**.**

A prime source of reference information throughout the course will be the ***Financial Times.*** Lancaster University has an institutional subscription to the title directly at <http://www.ft.com/>However, in order for university patrons to be able to have access to the title on any device, using apps where appropriate, they first need to [create an account](https://join.ft.com/e0282f61-f5ee-43b6-bfef-691c0ccb7bde) They will be required to register using their Lancaster University email address, after which point they can login to the <http://www.ft.com/>using these credentials.

The MARKETS section, specifically MARKETS DATA, will be a key section for students. Both the data and the news around each asset class will be highly beneficial for students to reference.

A number of supplementary reading references are short Financial Times articles and videos and are easily digestible. Students are strongly encouraged to review this material.

1. The core module web-based location is MOODLE (accessed via https://modules.lancaster.ac.uk) for making announcements, the location for recorded lectures, links to ‘Office Hours’, weekly MCQ practise tests, reading material, discussion forums, and more. Make sure you log on to the site before the first week of the course to make sure you have access. **You are responsible for accessing MOODLE on a daily/weekly basis to access all announcements, module materials and links to teaching sessions. You are advised also to access the site after the taught part of the course has ended as further announcements may be made or materials added**.

The primary means of communication is MOODLE. In addition, use will be made of e-mail if needed. For this purpose, it will be assumed that every participant of this course has a valid and active Lancaster University e-mail account. Furthermore, it will be assumed that mailboxes are checked at least on daily basis. Consequently, any notice emailed or posted on MOODLE will be assumed served no later than 24 hours later. It is student’s responsibility to make sure she or he has access to MOODLE and the University e-mail account.

**Course Administration**

This module will be delivered by Paul McCormick, Mohamed Badawy, Shiqi Chen, Mykola Babiak, and Roberto Pinto. The course has a prerequisite of AcF 214 “Principles of Finance” and students are expected to attend all lecture and workshop sessions and review all material. Your total study time for this module is expected to be at least 150 hours.

Students are expected to, and should, ask questions in the face-to-face workshop sessions. Note: *The workshop sessions contain unique content that is only provided at those workshops and attendance is imperative to perform well in assessment of the module*. In case of individual problems, students can make an appointment or come to see the lecturer during office hours. Each lecturer will communicate when his/her office hours will take place.

Office Hours:

**All term long**: Mohamed Badawy Thursdays from 9:30 to 10:30 (via Teams, m.badawy@lancaster.ac.uk)

**Weeks 13 and 14**; Mykola Babiak Wednesdays from 16:00 to 18:00 Charles Carter C4

**Weeks 15, 16 and 17**; Roberto Pinto Wednesdays from 14:00 to 16:00 Charles Carter C5

**Weeks 18, 19 and 20**; Shiqi Chen Wednesdays from 12:30 to 13:30, Charles Carter C3b

**Module Delivery**

There are 3 pillars of teaching delivery associated with the module:

1. Face-to-face weekly 2 hours lectures.
2. Face-to-face weekly workshop sessions. Students will be allocated to one of the workshop groups. *The workshop sessions contain unique content that is only provided at those workshops and attendance is imperative to perform well in assessment of the module*.
3. A fortnightly in-person ‘Commercial Awareness’ lecture i.e. a discussion about what is currently happening in today’s financial markets – *a theme that is assessed in the module, and again, attendance is required to perform well in assessment of this theme.* The topic is also something which will ‘bring the course to life’ for students.

**Module Assessment**

AcF 304 is assessed by Coursework (25%) and a final Examination (75%).

*Module Assessment includes assessment of unique content delivered at workshops and commercial awareness lectures.*

**Coursework Assignment:**

Coursework comprises of one End-Term Multiple Choice Test. Please do not assume that the exam being Multiple Choice is straight-forward. Negative marks for incorrect answers will NOT be used on multiple-choice format questions. In setting examinations and other assessed work, it will be assumed that students have attended all face-to-face sessions and reviewed all material, recommended reading, recommended tests and exercises or similar.

**The End-Term Test date and format will be advised.**

**If you miss the test, your mark for the test will be zero.** Make-up tests will only be offered with legitimate, appropriately documented reasons for not being fit for taking a test (such as illness certified by medical evidence, etc.).

You will be given 60 minutes to complete the End-Term test. This time already incorporates any ‘reading time’ so that you can start doing the test straight away without waiting for the end of reading time. Full details and instruction will be provided.

**Final Examination**

The final exam is comprehensive covering all the required material and may consist of a combination of multiple-choice format, quantitative and qualitative-type questions. There are no essay style questions in the final exam.

Note 1: The Department reserves the right to adjust test and exam marks to ensure that the marks have an appropriate distribution.

Note 2: Any visiting student who intends to leave Lancaster before the summer examination must inform the course director(s) immediately so that alternative assessment may be arranged. Please note that there is no opportunity for re-assessment in coursework tasks for visiting students failing to achieve the necessary pass mark for their home University; any re-sit opportunity offered to visiting students will be in the form of an examination.

**Workshops**: Workshops will take the format of discussion and reinforcement of lecture material assisted by evaluation of non-assessed MCQ and non-MCQ questions so students can judge how well they have grasped concepts. Workshops will also contain unique content which is assessable. Workshops will also cover the practical application of theoretical concepts in today’s financial markets and a discussion around recent movement in various financial market asset classes so students can see the application of what they have learnt via the lecture material and Commercial Awareness lectures.

**Attendance**: ***Weekly workshops and the fortnightly Commercial Awareness lectures are compulsory****.* It is your responsibility to ensure you register your attendance in compulsory sessions on this course by checking into the i-Lancaster system for face-to-face sessions. Please ask if you are unsure how to register your attendance in a session.

Absences without good cause (e.g. claimed illness not substantiated by appropriate paperwork provided within required time frame) may be penalised by subtracting marks for this course. At least as important, given the combined practical/theoretical focus on this course and the workshop discussions around this, it would be extremely difficult to perform well in examinations and coursework assessment without full attendance at the workshops and Commercial Awareness lectures.

**Module Outline**

Face-to-face workshops will run at various times with each student allocated a specific one-hour workshop group. Additionally, a fortnightly face-to-face Commercial Awareness lecture will be run.

Timetables are subject to change. Check your timetable regularly.

Revision Session and End -Term Test Review sessions are to be scheduled and time advised accordingly.

**Week 11: (Mohamed Badawy) Introduction and overview of the financial Market**

We look at how financial markets and financial intermediaries are crucial to a well-functioning economy and look at the background information on the structure and operation of financial markets that is needed in later topics.

Required reading: FM&I Chapters 1 and 2

**Week 11: (Mohamed Badawy) Bonds 1 – The Term Structure of Interest Rates**

This topic looks at how various interest rates differ. It gives students a feel for the interaction of data and theory. It also allows students to understand today’s interest rate environment.

Required reading: FM&I Chapter 5

**Week 12: (Mohamed Badawy) – Bonds 2 - The Bond Markets**

We explore capital market participants, capital market trading and the characteristics of various bond categories and additionally look at how the bond market trades today and the issues and challenges it faces.

Required reading: FM&I Chapter 12-The Bond Market

The Module will NOT be referencing ‘The Mortgage Markets’ chapter in the core module textbook FM&I. We address this subject in weel 15

**Week 13 (Mykola Babiak) The Foreign Exchange Market**

From a theoretical perspective we look at foreign exchange rates in the short and long run and explain changes in exchange rates. From a practical perspective we look at ‘spot’ and ‘forward’ rates and the evolution of foreign exchange trading.

Required reading: FM&I Chapter 15

Supplementary Reading: [Fed Funds Rate, Its Impact and How It Works.](https://www.thebalance.com/fed-funds-rate-definition-impact-and-how-it-works-3306122)

**Week 14 (Mykola Babiak) The Money Markets**

We look at why money markets are needed and their purpose to the government, firms, financial institutions, and individuals. Individual money market instruments and how they are traded are explored.

Required reading: FM&I Chapter 11

**Week 15 (Roberto Pinto) Why Do Financial Crisis Occur and Why Are They So Damaging to the Economy – Part 1?**

We look at when the financial system breaks down leading to financial crises which are inherently interesting because they are so dramatic. This has become even more true with the global financial crisis of 2007–2009, which Alan Greenspan characterized as a once-in-a-century credit tsunami. We explore the latter in detail including the mortgage-backed securities catalyst to the crisis.

Required reading: FM&I Chapter 8

Supplementary Reading:

[The financial crisis: a decade of debt](https://www.ft.com/video/80cb3f01-0a49-4a2d-a16d-b393d49e03f9)

The Great Crash 1929-John Kenneth Galbraith

For Mortgage Bond Markets refer to *Fabozzi*, Fixed Income Analysis, 2nd Edition, CFA Institute Investment Series, Wiley 2007, ISBN 0-470-05221-X. Chapter 3 ‘Overview of Bond Sectors and Instruments’- U.S. Agency Mortgage-Backed Securities - Pages 46-52.

The Fabozzi text is available in the library and in electronic form via [Lancaster University Library catalogue](http://onesearch.lancs.ac.uk/)

**Week 16 (Roberto Pinto) Why Do Financial Crisis Occur and Why Are They So Damaging to the Economy – Part 2?**

We focus on the regulatory response to the 2008 Financial Crisis and how this has impacted Investment Banks’ ability to trade today. We will also look at the Covid-19 2020 Financial Crisis and compare the two financial episodes. We will also introduce the topic of Central Banks beginning with a look at their structure so we can begin to understand their response to Financial Crises today and historically.

Required Reading: [US Federal Reserve Website.](https://www.federalreserve.gov/)

[How the market has adapted to Mifid2](https://www.ft.com/content/bde22c8e-94c6-11e8-b747-fb1e803ee64e)

[MiFID2:not all gloom and doom](https://ftalphaville.ft.com/2018/08/16/1534392000000/MiFID-II--not-all-doom-and-gloom/)

**Week 17 (Roberto) Central Banks and the Conduct of Monetary Policy**

The 2008 and 2020 financial crisis has generated much new thinking on how monetary policy should be conducted. Given the role of asset-price bubbles in the 2008 financial crisis, one of the most hotly debated topics in central banking circles right now is how central banks should respond to asset-price bubbles. We debate the topic which should help students appreciate the change in thinking that has occurred in central banking in the aftermath of the 2008 global financial crisis and how this change in thinking led to the central banking response to the 2020 financial crisis.

Required reading: FM&I Chapter 10

Supplementary Reading: [How Should Central Banks Respond To Asset Price Bubbles?](https://www.rba.gov.au/publications/bulletin/2011/jun/pdf/bu-0611-8.pdf)

**Week 18 (Shiqi Chen) The Stock Market**

We discuss theories of how stocks are priced and how information is incorporated into stock prices, laying out simple models of stock price valuation.

Required reading: FM&I Chapter 13

**Week 19 (Shiqi Chen) Asset Management**

We discuss today’s Asset Management Trends & Challenges

**Week 20 (Shiqi Chen) Financial Derivatives & Commodities**

We look at how the financial derivatives markets (forwards, futures, options, and swaps) work and how they can be used to hedge the risk faced by financial institutions. We also look at the Oil and Gold commodity markets.

Required reading: FM&I Chapter 16