

**Financial Markets and Financial Institutions  
(Economics 106M and 106ML)**

**UCLA  
Department of Economics**

**Prof. Aaron Tornell  
Spring 2025**

**This course must be taken jointly with 106ML. Make sure you are enrolled in both classes.**

**COURSE OBJECTIVES**

This course will use macroeconomic and asset pricing models to analyze the effects of policies on economic data, as well as their effects on the prices of bonds, stocks, and exchange rates. In particular, it will study the framework used by central banks to design monetary policy and affect interest rates, as well as other asset prices throughout the economy.

In an accompanying Laboratory course (Econ 106ML), we will discuss the impact of current economic events on exchange rates, stocks, and bonds.

**LEARNING OUTCOMES**

Students will demonstrate the ability to:

- Understand Central Bank's policies and procedures.
- Explain how policy announcements affect macroeconomic variables, as well as price changes of bonds, stocks and exchange rates.
- Construct and interpret economic time series.
- Evaluate the logical consistency of newspaper economic and financial articles.
- Understand when further theoretical refinements are required to better account for the facts.

**PREREQUISITES**

It is essential for students enrolled in this course to have a strong background in intermediate macroeconomics (Econ 102 or its equivalent), intermediate microeconomics (Econ 11 or its equivalent), econometrics (Econ 103 or its equivalent), statistics (Econ 41 or its equivalent), calculus (Math 31a and 31b or its equivalent), and in the use of spreadsheets, such as Excel.

**GRADING**

The course grade will be determined by:

Homework (60%)

Final exam (40%)

## HOMEWORK

By the due date of each homework, please upload the solution on the homework submission link (i.e. 'Homework 1'). Each day of delay will subtract 25% of the corresponding homework's grade.

## FINAL EXAM

The Final Exam will take place remotely via Zoom. It will be administered only during the day and time selected by the Registrar of UCLA. The final exam will not be administered at another time. No exceptions will be made. Further information regarding the logistics of the final exam will be provided later in the quarter. Please note the policy stated on the Economics Department website: "Students may not enroll in two courses that have the same meeting and/or exam time. Students are given a warning about the conflict in advance of them enrolling into the course to make them aware of the conflict and how this could impact them. The Economics Department does not support any adjustments be made to accommodate students who choose to enroll with a conflict."

<https://economics.ucla.edu/undergraduate/current-students/faq/#toggle-id-22>

## COMMUNICATIONS

All announcements regarding the course will be posted in the class website. Make sure to check the class website regularly.

## EMAIL POLICY

Please do not email me with questions about the class material, homework, logistics, etc., as I may not be able to answer them. Instead, please bring these questions to my office hours, and the TA office hours.

## ACADEMIC INTEGRITY AND STUDENT CONDUCT

Cheating is not allowed. Any cases of cheating—in exams, sign-in sheets, homeworks—will be reported to the Office of the Dean of Students. For more details on the policies on academic integrity and student conduct please refer to the Office of the Dean of Students website at

<http://www.deanofstudents.ucla.edu/Academic-Integrity>.

<https://www.deanofstudents.ucla.edu/student-conduct>

## CLASSROOM CIVILITY

It is important to respect your classmates desire to learn. Please do not come late to class, as it is disruptive no matter how quiet you are. If you carry a cell phone or any other type of audible device, turn it off before entering class. Do not engage in side conversations during the lecture, even in a whisper.

NO EXCEPTION WILL BE MADE TO THE POLICIES ENUMERATED IN THIS SYLLABUS

## TOPICS

1. The Bond Market, Bond Pricing and Interest Rates.
2. Determinants of Interest Rates and the Taylor Rule
3. Monetary Policy Tools and Central Bank Policy
4. The Term Structure of Interest Rates
5. Fed Funds Futures & market forecasts of interest rates
6. The Equity Market and Stock Pricing
7. Options and the VIX
8. The Foreign Exchange Market and Exchange Rates
9. Exchanges Rates in the long run and PPP
10. Momentum and Contrarianism
11. Private Equity and Prive Credit

## STUDY MATERIAL

The theoretical material is covered in:

- Class Notes.
- *Investments* by Bodie, Kane, and Marcus, McGraw-Hill Irwin (any edition).
- *International Financial Management* by Geert Bekaert and Robert Hodrick, Prentice Hall.

*The Wall Street Journal* and *Barrons* will be used in the course. You may subscribe to the WSJ at a reduced student rate for a few months at a reduced rate at [www.wsj.com](http://www.wsj.com) and [www.barrons.com](http://www.barrons.com)

Alternatively, you may access the WSJ for free as follows:

- A. Go to <https://search.proquest.com/wallstreetjournal/advanced/>
  - Connect through the institution option by entering “UCLA”
  - Log-in with your UCLA Id and Password
- B. To access all the articles on a specific date, go to “Publications”
  - Click “Wall Street Journal (Online); New York, N.Y.” (Includes all articles to present)
  - You will be able to find any article under “Browse specific issues” by clicking your desired year, month, and date.
- C. To access WSJ articles through ProQuest while off-campus
  - Go to [UCLA Library](#)
  - There you will find instructions on how to set up a VPN or proxy server to access UCLA Library resources from off-campus.

In the homework you will be required to use statistical packages such as Excel.