



FIN 31303: Financial Markets and Institutions

Level: 3000

Number of Credits : 03

Course Description

Financial markets and institutions systematically reviews the dynamics of financial markets, financial instruments, and market participants. This course provides a solid foundation for understanding and evaluating financial systems, and formulating policies for its betterment through discussing the fundamentals of the intermediation process, nature of financial instruments and institutions.

Intended Learning Outcomes

At the end of this course, the student will be able to;

- Describe the role of regulatory bodies in regulating financial intermediaries and markets.
- Explain the nature of key financial instruments.
- Assess the performance and stability of financial intermediaries.
- Evaluate the role and performance of stock markets.
- Assess the performance of a financial system.

Teaching/Learning Methods

Lectures, Group discussions, Workshops and Seminars

Methods of Assessment

In-course Assessments	: 30%
End Semester Examination	: 70%

Course Contents

1. Overview of financial markets and institutions
2. Interest rates
Nominal and real interest rates, term structure of interest rates, interest rate risk, default risk, determinants of interest rates
3. Financial markets and instruments
Function and structure of financial markets, market efficiency, behavioral finance, money market, bond market, stock market, mortgage markets and debt securitization, real estate bubbles
4. Financial institutions and institutional arrangements
Role of financial institutions, transaction cost, information asymmetry, conflict of interest, agency problem, safety nets, capital regulation, Basel framework
5. Central banking
Origins of central banking, central bank independence, structure and role of Central Bank of Sri Lanka, Sri Lankan monetary policy and tools
6. Financial intermediaries

- Banking and bank management, types of banks and non-bank financial institutions, banking industry structure and competition, bank performance and stability
7. Risk management in financial intermediaries
Screening and monitoring, collaterals, credit rationing and financial restraints, relationship based banking
 8. Stock markets
Types of stocks, determinants of stock prices, stock market capitalization and performance, regulation of stock markets
 9. Financial innovation and crisis
Shadow banking, nature and states of financial crisis

Recommended Readings

1. Frederic S. Mishkin (2014), Stanley Eakins, Financial Markets and Institutions (8th Edition). Pearson.
2. Anthony Saunders and Marcia Cornett (2011), Financial Markets and Institutions, 5th Edition, McGraw-Hill/Irwin.