

**FRL 315**  
**Financial Institutions and Markets**  
CRN: 72405 – Section 2  
Tuesday & Thursday: 3:00 – 4:50 p.m.  
Fall Quarter 2008  
Building 24B- Room 1421  
**P. Sarmas**  
[www.csupomona.edu/~psarmas](http://www.csupomona.edu/~psarmas)

**CATALOG DESCRIPTION:**

Focus on financial markets and institutional management from a macroeconomics perspective. Relationship between financial institutions and financial markets and the impact of government regulation and monetary policy. **Prerequisite: FRL 301 and EC 202.**

**COURSE OBJECTIVES:**

This course concentrates on money market and financial system. The course is divided into four parts. First, the course will cover the basic economic forces operating in the financial markets and key financial markets, instruments and institutions. Second, course will discuss the function of the Federal Reserve System and its influence on financial markets and instruments. Next, the course is focused on debt and equity securities market. The final portion of the course will include the international dimension of the financial markets.

**REQUIRED TEXT:**

Author: **Jeff Madura**  
Title: **Financial Markets and Institutions**  
Publisher: Thompson/South-Western Publishing  
Date: 7<sup>th</sup> Edition, 2006

**Wall Street Journal – Interactive Version**

**RECOMMENDED TEXT:**

Peter S. Rose - Money and Capital Markets.  
Rose and Fraser - Financial Institutions.  
Marcia Stigum - Money Markets.

**ACADEMIC INTEGRITY:**

The University is committed to maintaining academic integrity throughout the University community. Academic dishonesty is a serious offense that can diminish the quality of scholarship, the academic environment, the academic reputation, and the quality of a Cal Poly degree. Please read the University catalog to learn about academic dishonesty at Cal Poly and to the responsibility of students, faculty, and administrators relating to this subject.

**COURSE REQUIREMENTS:**

1. Class attendance and participation is required.
2. Reading the assigned chapter(s) and the Wall Street Journal articles prior to the meeting.
3. Completing the mid-term and final examinations.
4. Please arrive on time and remain in class throughout the session. **Late arrival and early departure is subject to point deductions.**
5. **Please turn off your phone while in class. Use of cell phone (including text messaging) in the class during lecture by any one student will result in 5 points deduction from all students enrolled in the class.**
6. Please note that there is **NO** make-up examination.

**EXAMINATION:**

1. Please note that you will need to present your student ID at the time of examination.
2. You will be asked to sign the attendance sheet during the exam.
3. Turn-off your cell phones and pagers.
4. You cannot leave the classroom after examinations are distributed.
5. You will have to bring your own scantron and calculator (simple financial calculator).
6. Palm-held computer or programmable calculators are not permitted.
7. You will be provided with a formula sheet.
8. You will have to show all your calculations in the problem section for full credit.
9. Your writing should be legible in the essay section for full credit.
10. Each examination consists of multiple-choices, short-problem, and short-essay questions.
11. You may submit a self-addressed-stamped envelope, if you wish to receive your grade early.  
NO grades will be released via e-mail or telephone.
12. Check your final examination schedule. **If you have more than two final examinations on the same day, make prior arrangements or drop this course.**
13. **ABSOLUTELY NO MAKE-UP!**

**COURSE ASSISTANCE:**

Office Information		Office Hours	
<b>Location:</b>	Building 66, #219	<b>Tuesday</b>	8:00 – 10:00 a.m.
<b>Telephone:</b>	(909) 869 2405	<b>Wednesday</b>	8:00 – 9:00 a.m.
<b>Fax:</b>	(909) 869 2124	<b>Thursday</b>	8:00 – 10:00 a.m.
<b>E-Mail:</b>	psarmas@csupomona.edu	<b>Others:</b>	By appointment

**COURSE GRADE:**

Grades are determined in the following format:

Mid-Term Exam I	.....	30 percent
Mid-Term Exam II	.....	30 percent
Final Examination	.....	40 percent

If necessary the course grade will be curved to meet a course-average GPA of 2.0 of “C”. The course grade is based on the following scale:

Score	Grade	Score	Grade	Score	Grade	Score	Grade	Score	Grade
93	A	86	B+	76	C+	66	D+	0	F
90	A-	83	B	73	C	63	D		
		80	B-	70	C-	60	D-		

**IMPORTANT DATES**

Dates	Event
October 2	Last day to add or drop the course
October 15	Last day to drop the course with petition
October 21	Mid-term examination 1
November 13	Last day to drop the course <i>only for emergency</i>
November 18	Mid-term examination 2
November 21	Last day to apply for current quarter graduation
<b>December 9</b>	<b>Final Examination: 1:40 p.m. – 3:40 p.m.</b>

## LECTURE SCHEDULE

### **Thursday: September 25**

Class List Check  
Course Introduction

#### **Chapter 1: Role of Financial Markets and Institutions**

Overview of Financial Markets  
Securities Traded in Financial Markets  
Valuation of Securities in Financial markets  
Market Efficiency  
Role of Financial Institutions in Financial Markets

### **Tuesday: September 30**

#### **Chapter 1: Role of Financial Markets and Institutions**

Comparison of Financial Institutions  
Financial Market Regulation  
Overview of Financial Institutions

### **Thursday: October 2**

#### **Chapter 2: Determination of Interest Rates**

Loanable Fund Theory  
Economic Forces That Affect Interest Rates

### **Tuesday: October 7**

#### **Chapter 2: Determination of Interest Rates**

Key Issues Regarding Interest Rates  
Evaluation of Interest Rates Over Time  
Forecasting Interest Rates

### **Thursday: October 9**

#### **Chapter 3: Structure of Interest Rates**

Factors Affecting Yield among Securities  
Explaining Actual Yield Differentials  
Estimating the Appropriate Yield  
A Closer Look at the Term Structure  
International Structure of Interest Rates

## **Tuesday: October 14**

### **Chapter 4: Functions of the Fed**

- Organization of the Fed
- Monetary Policy Tools
- Impact of Technical Factors on Reserve
- Fed Control of the Money Supply
- Monetary Control Act of 1980
- Global Monetary Policy

## **Thursday: October 16**

### **Chapter 5: Monetary Theory and Policy**

- Monetary Theory
- Trade-Off Faced by the Fed
- Economic Indicators Monitored by the Fed
- Lags in Monetary Policy
- Assessing the Impact of Monetary Policy

## **Tuesday: October 21**

### **Chapter 5: Monetary Theory and Policy**

- Integrating Monetary and Fiscal Policy
- Global Effects on Monetary Policy

### ***Mid-Term Examination I***

*(Chapters: 1 - 4, and Assigned Wall Street Journal articles)*

## **Thursday: October 23**

Review of Mid-term Examination

### **Chapter 6: Money Markets**

- Money Market Securities
- Valuation of Money Market Securities
- Institutional Use of Money Markets
- Risk of Money Market Securities
- Interaction among Money Market Yields
- Globalization of Money Markets

## **Tuesday: October 28**

### **Chapter 7: Bond Markets**

- Treasury Bonds
- Federal Agency Bonds
- Municipal Bonds
- Corporate Bonds
- Institutional Use of Bond Markets
- Globalization of Bond Markets

## **Thursday: October 30**

### **Chapter 9: Mortgage Markets**

- Residential Mortgage Characteristics
- Creative Mortgage Financing
- Activities in the Mortgage Markets
- Institutional Use of Mortgage Markets
- Valuation of Mortgages
- Risk from Investing in Mortgages
- Use of Mortgage-Backed Securities

## **Tuesday: November 4**

### **Chapter 10: Stock Offerings and Investors Monitoring**

- Background on Common Stock and Preferred Stock
- Public Placement of Stock
- Stock Quotations
- Stock Exchanges
- Investor Participation in the Secondary Market
- Monitoring by Investors

## **Thursday: November 6**

### **Chapter 16: Foreign Exchange Derivative Markets**

- Background on Foreign Exchange Markets
- Factors Affecting Exchange Rates
- Movements in Exchange Rates
- Forecasting Exchange Rate Volatility
- Speculation in Foreign Exchange Markets
- Foreign Currency Derivatives
- International and Locational Arbitrage
- Covered Interest Arbitrage

**Tuesday: November 11 - Holiday**

**Thursday: November 13**

**Chapter 17: Commercial Bank Operations**

- Bank Participation in Financial Conglomerates
- Bank Sources of Funds
- Uses of Funds by Banks
- Off-Balance Sheet Activities

**Tuesday: November 18**

**Chapter 21: Thrift Operations**

- Background on Savings Institutions
- Sources of Funds
- Uses of Funds

**Mid-Term II Examination**

*(Chapters: 5 – 10; and Assigned Wall Street Journal Articles)*

**Thursday: November 20**

**Review of Mid-term Examination**

**Chapter 21: Thrift Operations**

- Regulation of Savings Institutions
- Exposure of Risk
- Management of Interest Rate Risk
- Valuation of Savings Institutions
- Saving Institutions Crisis

**Tuesday: November 25**

**Chapter 22: Consumer Finance Operations**

- Types of Finance Companies
- Sources and Uses of Finance Company Fund
- Regulation of Finance Company
- Risk Faced by Finance Company

**Thursday: November 27 - Holiday**

**Tuesday: December 2**

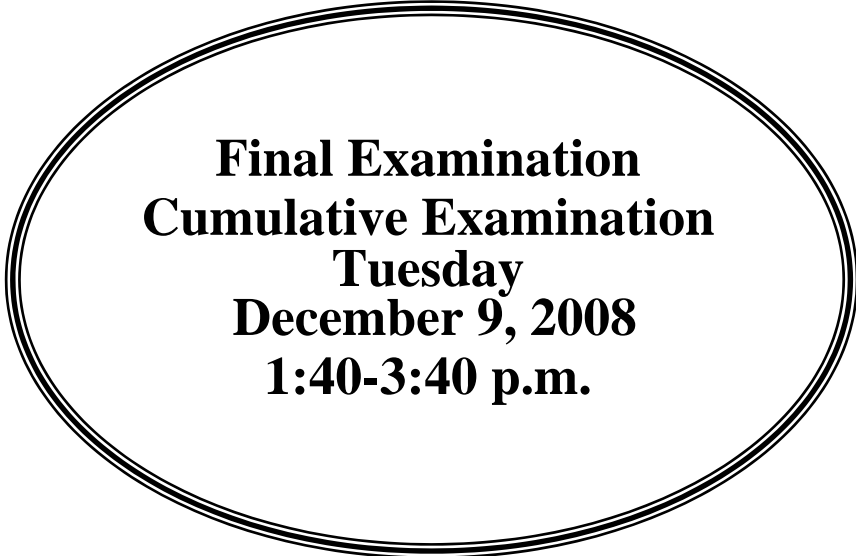
**Chapter 22: Consumer Finance Operations**

Captive Finance Subsidiaries  
Valuation of Finance Company  
Options on Future Contracts

**Thursday: December 4**

**Chapter 23: Mutual Fund Operations**

Background on Mutual Funds  
Load versus No-Load Mutual Funds  
Open-End vs. Closed-End Mutual Funds  
Stock Mutual Fund Categories  
Bond Fund Categories



**Final Examination  
Cumulative Examination  
Tuesday  
December 9, 2008  
1:40-3:40 p.m.**