



The Lee Kong Chian School of Business
Academic Year 2016/2017
Term 2

FNCE 102: FINANCIAL INSTRUMENTS, INSTITUTIONS, AND MARKETS

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Important things to note:

- Mid-term exam is on 28 Feb 2017 Tues 7:30pm-9:30pm SOA Auditorium (venue has been booked). If you want to bid for Prof R. Loh's class, please be available to sit for this mid-term exam.
- SOA uses the FNCE102 syllabus as part of its ACCA accreditation needs, which now requires (from 2017) all exams in FNCE102 to be closed-book.
- Week 11 will be an online class as required by the Emergency Preparedness initiative. This means you don't need to come physically to class in week 11 but instead watch some short video lectures online.

COURSE DESCRIPTION

This course focuses on the role of financial markets and financial institutions in facilitating the flow of funds to finance investments by corporations and governments. This course systematically evaluates each market and describes the participants and types of instruments offered. We examine four key markets: equity markets, debt markets, foreign exchange markets, and derivative markets. We will also examine the role of financial institutions such as commercial banks and mutual funds.

This course builds on the foundations provided by FNCE101 Finance but focuses on learning how the principles of finance can be applied in a market setting. This course will also prepare students for other more advanced finance courses.

LEARNING OBJECTIVES

At the end of this course, students will be able to:

- Explain the role of each financial market and compare the differences between each market
- Describe the linkages between each market
- Describe the instruments in each market and how they are valued and traded
- Describe derivative instrument profiles and their use in hedging risk
- Explain the role of banks and other financial institutions
- Apply the knowledge learnt to current happenings in financial markets

PRE-REQUISITE/ CO-REQUISITE/ MUTUALLY EXCLUSIVE COURSE(S)

Please refer to the Course Catalogue on OASIS for the most updated list of pre-requisites / co-requisites for this particular course. Do note that if this course has a co-requisite, it means that the course has to be taken together with another course. Dropping one course during BOSS bidding would result in both courses being dropped at the same time.

ASSESSMENT METHOD

Class participation/Homework	10%
Project/Presentation	30%
Mid-term exam	20%
Final exam	40%

INSTRUCTIONAL METHODS AND EXPECTATIONS

TEACHING STYLE

- A key feature of FNCE102 under Prof. R. Loh is that the class is practical and not textbook-oriented. You will learn the practical aspects of financial markets. The textbook is used only about half of the time. The other half consists of the instructor's own notes and external materials.
- Recent financial news is often used to illustrate class concepts and real financial market data are used for project and exam questions.
- You will be encouraged to read financial news often and learn to interpret them in the light of what is taught in the class.

PROJECT

The project will require an analysis of an issue or a topic in financial markets. The question will be provided by the instructor. You need to use financial databases such as Datastream/Eikon/Bloomberg to collect the required data for analysis. A class in week 2 will teach you how to use such databases. Each group will consist of about 5 students so that each section has a maximum of 8 groups. You may be reassigned to other groups within the section if your group is too big.

In week 3, groups decide whether to do project 1 (presented in week 6) or project 2 (presented in week 12). If needed, we will ballot to ensure an even number of groups per project. The topic will be given to you about 3 weeks before the presentation and is due on Tuesday noon of the week which you are scheduled to present. The report and slides must be uploaded to elearn by the deadline. During the presentation, please print a copy of the presentation slides and report for the instructor. The printed copies should not be bound in any fancy way—just staple the pages together.

The project report must be in the following format:

- The main content including charts and tables must be kept to a maximum of 5 A4 pages in length (with font size 12 and 1 inch margin all around, single spacing). If you really have extra materials, you can put it in an appendix.
- An auto-generated table of contents.
- A references page detailing *all* the sources which you utilized in your research. Include web links for internet articles.
- A footnote if you quote verbatim (i.e., word-for-word) from any source. Use double quotation marks to identify the phrase or paragraph quoted.

The presentation will contribute 10% and the project 20% to your course grade. Each group will have strictly only 25 minutes (15 mins presentation 10 mins Q&A) to present the project in class with all members presenting. Students from other sections who are presenting later in the week cannot sit in to watch the presentations of groups in earlier sections. During the Q&A, only students, not the instructor, can ask questions.

EXAMS

- Mid-term exam (20% weight), 28 Feb 2017 Tues 7:30pm-9:30pm, SOA Ngee Ann Kongsi Auditorium
- Final exam (3 hours, 40% weight), 12 April 2017 Wed 1-4pm, venue to be announced

The mid-term exam will cover the bonds and equities topics and will occur in the week after the mid-term break. The final exam will cover all topics.

For accreditation purposes, the final exam is closed-book, 3 hours, and will not have more than 30% of MCQs.

TEACHING ASSISTANTS

Timothy LIM Weize timothy.lim.2013@accountancy.smu.edu.sg
XUE Shuyu shuyu.xue.2015@pbs.smu.edu.sg (Finance Ph.D. student)

CLASS TIMES

G1 Tue 12:00PM LKCSB SR 3.10
G2 Wed 8:15AM LKCSB SR 2.4
G3 Wed 3:30PM LKCSB SR 2.4

ACADEMIC INTEGRITY

All acts of academic dishonesty (including, but not limited to, plagiarism, cheating, fabrication, facilitation of acts of academic dishonesty by others, unauthorized possession of exam questions, or tampering with the academic work of other students) are serious offences.

All work (whether oral or written) submitted for purposes of assessment must be the student's own work. Penalties for violation of the policy range from zero marks for the component assessment to expulsion, depending on the nature of the offence.

When in doubt, students should consult the course instructor. Details on the SMU Code of Academic Integrity may be accessed at <http://www.smuscd.org/resources.html>.

ACCESSIBILITY

SMU strives to make learning experiences accessible for all. If you anticipate or experience physical or academic barriers due to disability, please let me know immediately. You are also welcome to contact the university's disability services team if you have questions or concerns about academic provisions: included@smu.edu.sg.

Please be aware that the accessible tables in our seminar room should remain available for students who require them.

RECOMMENDED TEXT AND READINGS

Financial Markets and Institutions

by Anthony Saunders and Marcia Cornett

6th edition, 2015, McGraw Hill

Getting a used version of an older edition is fine too since I refer to the textbook only half of the time.

WEEKLY LESSON PLANS

Tentative: Please refer to <http://www.mysmu.edu/faculty/rogerloh/teaching.htm> for updates.

Week	Topic	Outline	Chap.
1.	Intro/Equity Markets 1	Overview of FNCE102 Equities 1: Stock Indices Types of stock market indices Index construction methodologies	1, 8
2.	Financial Database class	Conducted by the Library. Learn how to collect financial data using financial databases. Sign up according to your class times. Session timings to be announced. Do financial database homework	
3.	Equity Markets 2	Form project groups: Groups assigned project 1 will start work. Equities 2: The Stock Market Issuing Stock: IPOs, Underpricing Rights issue and trading Trading Stock: Types of markets and orders Margin trading	8
4.	Equity Markets 3	Equities 3: Mutual funds Mutual funds, unit trusts Exchange-traded funds Fund costs analysis Fund performance measures How should retail investors invest?	17

Week	Topic	Outline	Chap.
5.	Bond Markets 1	Bonds 1: Bond pricing and term structure Yield computations Determinants of yields Money market instruments (Day/year conventions) Term structure of interest rates Duration and convexity Bond auction pricing mechanisms (SGS bonds)	2, 3, 5
6.	Project 1 Presentations and Bond Markets 2	Project 1 Presentations Bonds 2: Accrued interest Clean price and dirty price	3,6
7.	Foreign Exchange Markets	Discussion of project 1 Forex markets Spot and cross rates Currency trading Triangular arbitrage Forward markets Parity conditions International parity conditions Covered interest arbitrage Carry-trade and risk aversion Review for mid-term exam (sample mid-term given out)	9
8.	Mid-term break, no class.		
9.	No class except for mid-term exam	Mid-term exam (covers equities and bonds only, closed-book, 2 hours), 28 Feb 2017 Tuesday 7:30pm-9:30pm, SOA Ngee Ann Kongsi Auditorium Project 2 released and groups doing project 2 will start work	
10.	Financial Institutions	Financial Institutions Commercial banks Securitization Investment banks Insurance companies	11, 16, 19, 15
11.	Derivative Markets 1 Online class	Derivatives 1: Futures and options Futures versus forwards Pricing futures contracts Margin requirements of futures Call and put options Determinants of option value	10
12.	Project 2 Presentations and Real estate and Insurance markets	Project 2 presentations Real estate and insurance markets Is real estate less risky than stocks? Is paying off housing loan a good idea? Isn't insurance a waste of money?	15
13.	Derivative Markets 2	Discussion of project 2 Derivatives 2: Options strategies and interest rate derivatives Option strategies Forward rate agreements Interest rate swaps Review for final exam (sample qns for final exam given out)	10
14.	Study break		
15.	Final Exam, 3 hours (covers all topics, closed book) 12 April 2017 Wed 1-4pm, venue to be announced		