

**Course Code: FNCE699**

**Course Title: FINANCIAL MARKETS**

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

FNCE680 Corporate Finance & Financial Management

**COURSE AREA**

FINANCE

**GRADING BASIS**

Graded

**COURSE UNIT**

1 CU

**FIRST OFFERING TERM**

Academic Year: AY2017  
Academic Term: MM1605

**COURSE DESCRIPTION**

This course focuses on the role of financial markets in facilitating the flow of funds to finance investments by corporations and governments. We will systematically examine each market and describe the participants and types of instruments offered. The key markets examined are equity markets, debt markets, foreign exchange markets, derivative markets, real estate markets, and insurance 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 FNCE680 Corporate Finance & Financial Management. Our focus will be to understand how financial markets work practically. We will also learn how and whether one should invest or participate in each of the different markets.

**LEARNING OBJECTIVES**

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

- Explain the role of each financial market and the risks in 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

## **INSTRUCTIONAL METHODS AND EXPECTATIONS**

Prof. R. Loh's FM class is very practical and not at all textbook-oriented. The textbook will be used only about half of the time. The other half consists of the instructor's own notes and external materials. Recent financial news will often be used to illustrate a point. Final quiz questions often use real financial market data. To do well in this class, you need to read financial news often and learn to interpret the news in the light of what is taught in the class. As a research track-professor, Prof. Loh will also expose you to cutting-edge academic finance research relevant to the class and project topics. You will learn that overarching principles in finance involving risk and ex ante returns can be applied in any business setting.

The group project will allow students in groups to perform an analysis of a topic involving financial markets. The topic will be given to you. It will not be a micro topic (e.g. should I invest in a particular company) but will be a more macro topic (e.g. how asset classes behave—e.g. the correlation between a country's currency and stock markets, or investing in downturns versus buy-and-hold). Not only will you learn something of practical use (collecting and analysing financial data), you will gain insights into how financial markets work.

The final quiz helps to consolidate what you have learnt in the course. The focus is to understand the concepts taught and apply them, not to test pure memorization skills. Hence the quiz will be open-book where all materials including textbooks, class notes, articles, and your own personal notes can be brought into the exam, except for your laptop and smartphone.

Class participation will not just focus on quantity of comments but the quality of comments. It will include questions that you ask during the Q&A segment of the project presentations. Asking questions after the lecture is over, on email, or during office consultations do not count towards class participation.

## **ASSESSMENT METHODS**

Your overall evaluation will be based on the following components with the following weights:

Final quiz (open book)	40%
Group project	35%
Assignment	15%
Class participation	10%

## **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 presented in class must be the student's own work. Any student caught violating this policy may result in the student receiving zero marks for the component assessment or a fail grade for the course. This policy applies to all works (whether oral or written) submitted for purposes of assessment.

When in doubt, students are encouraged to consult the instructors of the course. 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](mailto: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 OR READINGS

Financial Markets and Institutions, by Anthony Saunders and Marcia Cornett, 6th edition, 2015, McGraw Hill.

## WEEKLY LESSON PLANS

Tentative (last updated January 2017)

\* denotes student assignments/project/exam

Lesson	Topic	Outline	Chap.
1.	Introduction & Equity Markets 1	Class overview Stock Market Indices Mutual funds and ETFs Fund performance measurement	1, 8, 17
2.	Equity Markets 2	Using Bloomberg to download financial data (Conducted in Investment Studio in library) *Database Assignment given out (individual assignment)	8
3.	Bond Markets *Database Assignment due	Understanding debt claims Bond prices and yields Determinants of yields Term structure of interest rates Money market day/year conventions Governments bond auctions	2, 3, 5
4.	Foreign Exchange Markets	Global currency markets Understanding rates and arbitrage Spot and Forward markets Parity conditions Covered interest arbitrage Carry trade *Project question given out (group project)	9
5.	Derivative Markets	Futures and forwards Pricing futures contracts Margin requirements of futures Call and put options Determinants of option value Hedging with futures/forwards and options	10
6.	Financial Institutions, Interest Rate markets	Financial Institutions Commercial banks Investment banks Insurance companies Interest rate products	11, 15, 16
7.	Presentations	*Presentations by each project group	
8.	Real Estate, Insurance, and personal investment	Real estate How to price real estate Is real estate less risky than stocks? Insurance Is insurance a waste of money? Personal investment How should you invest your money?	15
Final Quiz (covers all topics, open-book without laptop, 2 hours)			