

McGill University

Department of Economics

Financial Instruments and Institutions (ECON304)

Winter 2024

Instructor Contact Information:

Dr. Lingling Zhang

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Hashtag : #mge304

Office: LEA434

Regular classes:

Times: Tuesdays and Thursdays 1:05pm-2:25pm

Room: LEA26

Instructor's office hours: Tuesdays and Thursdays 12pm-1pm in LEA434.

Email Policy: Due to the large number of students enrolled in the courses, it is challenging to respond individually to all emails. To make the most of our communication and to address your queries effectively, please read the following policies carefully:

1. In-Class and Office Hours Queries will be the primary Mode of Communication: I encourage you to ask questions during class time and during my office hours. This approach not only allows for immediate clarification but also benefits other students who may have similar queries.
2. Emails for Class-Wide Concerns will be addressed in Class: Emails that require detailed explanation will be addressed in the subsequent class sessions. This method ensures that everyone receives the same level of understanding and information.

Teaching Assistants' email addresses, office hours and TA session schedule will be posted on MyCourses.

Course Overview: This course is designed to introduce the fundamental principles of monetary and financial economies, management and internal governance of banks, policy design and banking regulations. The contents include stock market, new trends and development in banking, role and functions of the central bank, role of financial institutions, currency war, financial crisis, etc. The objective is to help students to build on analytical skills using methodologies, such as basic algebra and graphical analysis, institutional analysis, and case studies to solve real world economic problems.

Textbook: Mishkin, F.S. and A. Serletis, *The Economics of Money, Banking, and Financial Markets*, Canadian Edition, 8/E, MyEconlab with Pearson eText---Instant Access---Access card package

The textbook is optional. If you have any technical problems or questions regarding MyLab or the book, please contact Pearson customer service which is available 24/7. The instructor will not have any access to provide you such support. Any email regarding the above to the instructor will not be replied to.

Course Evaluation:

Midterm Examination.....40%

Final examination60%

Examinations: There will be two exams, and both exams are IN-PERSON.

Midterm exam is scheduled on **March 19th, 2024, and it is IN-CLASS EXAM.**

Final exam will be scheduled by the university during the final exam period.

There will be a supplemental examination which will be worth 100% of your final grade.

McGill University values academic integrity. Therefore, all students must understand the meaning and consequences of cheating, plagiarism and other academic offences under the Code of Student Conduct and Disciplinary Procedures (see www.mcgill.ca/students/srr/honest/ for more information).

Readings: You are encouraged to read the Wall Street Journal and the Financial Times; websites such as Bloomberg and Reuters; reports from central banks, IMF, and World Bank. I will choose several articles from these two journals and we will discuss them in our classes. Other assigned readings will be posted on MyCourses.

How to use Mylab for this course: There will be assignments (optional) on Mylab. The TAs will be fully responsible for explaining any MyLab questions. TAs will hold sessions and office hours every week to explain the assignments on MyLab and answer your questions.

Preliminary Course Outline

I. An overview of the financial market

1. An Overview of the Financial System
2. Review of the bond market and money market.
3. Why the financial institutions exist?

Readings: Chapter 1, 2, 3, 4, 5, and 6

II. The Stock Market

1. An overview of the Stock Market
2. The Theory of Rational Expectations and the Efficient Market Hypothesis
3. On-line Experiment: Guessing the numbers.
4. Case study: The Black Swan Theory and Stories

Readings: Chapter 7.

III. Financial Institutions and Regulations

1. An economic analysis of financial structure
2. Economic analysis of financial regulation
3. Case study: Is China a counterexample to the importance of financial development

Readings: Chapter 8 and 9.

IV. Banking Industry in Canada and more

1. Historical Context
2. Banking Industry Structure
3. Market Dynamics and Competition
4. Future of Banking
5. Case study: Digital Transformation in JPMorgan Chase and ING Bank.

Readings: Chapter 10

V. Financial Crises

1. Bank run
2. 2008 global financial crisis and its consequences
3. Case Study: Silicon Valley Bank Run

Readings: Chapter 11

VI. Banking and the Management of Financial Institutions

1. The bank balance sheet
2. Bank management
3. Managing credit risk and interest rate risk
4. Off-balance activities

Readings: Chapter 12

VII. Risk Management with Financial Derivatives

1. Hedging and forward contracts
2. Future contracts and markets
3. Options
4. Swaps
5. Credit derivatives

Readings: Chapter 13

VIII. Currency Attacks

1. Currency attacks
2. Historical Context and Case Studies
 - a. George Soros and the Bank of England, 1992.
 - b. the Asian Financial Crisis, 1997
3. Online experiment: Currency attack
4. Economic Theories Behind Currency Attacks: the impossible trinity and moral hazard

5. How to predict and prevent: international banking and regulations
Readings: Chapter 19.