

**UNIVERSITY OF SOUTHERN CALIFORNIA
MARSHALL SCHOOL OF BUSINESS**

FBE 524
Wednesday 6:30-9:30pm
Hoffman Hall 305
Fall 2014
Blackboard Section 15392R

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Accounting Building 301G
(213)-740-6539
Office Hours: Monday and Wednesdays, 3:00-4:00pm or TBA
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**MONEY AND CAPITAL MARKETS
COURSE OVERVIEW**

COURSE DESCRIPTION

This course provides an overview of the global financial system, introducing the important institutional players, describing and classifying financial markets where institutions and individuals operate, and developing an analytical framework to understand the determinants of prices and yields at which financial transactions occur. We will emphasize understanding and evaluating the significance of financial market events, focusing on the causes of the financial crisis beginning in the summer of 2007 and the monetary and regulatory policy responses and legislative reactions including, the Dodd-Frank Act of 2010 and regulations implemented or debated since its enactment. The course is roughly evenly split between institutional details concerning the organization of the contemporary financial system and the conceptual and analytical approaches used to understand past, current, and future developments in financial markets. The course provides an integrated analytical framework for understanding the effects of economic forces and economic policy on key financial market variables that determine the success of business strategies and present risks to firms or individuals from changes in interest rates, equity values, and exchange rates.

The course builds on foundations established in MBA or MBA.PM core courses (or equivalent training elsewhere) in the areas of economics and finance and draws on basic familiarity with accounting and statistics. The course will expand on students' personal familiarity with financial institutions and markets with the goal of placing their understanding in a broader and more comprehensive framework. The course will rely on many public data sources and will require close attention to current financial market events requiring that students be comfortable with quantitative concepts and simple mathematical relations.

PREREQUISITES AND CONCENTRATION CREDIT

This course requires only the MBA core sequence and draws particularly on material covered in GSBA 521ab or GSBA 548, GSBA 506ab or GSBA 524, GSBA 510, GSBA 511 and GSBA 526 or GSBA 544. The course is suitable for students concentrating in finance and non-finance students wishing to have a deeper understanding of financial market developments than is provided in required core courses.

EDUCATIONAL OBJECTIVES

The objective of this course is to make a wide range financial market events comprehensible within an integrated framework. At the conclusion of this course students will have a sophisticated understanding of current financial market developments as well an ability to place current events into both an historical context and anticipate likely future developments. They will be in command of the financial market vocabulary used by finance professionals and will be familiar with the financial market trade literature and sources of information used by professionals.

CAREER FOCUS

This course is directed at preparing students who will be dealing with financial markets either as finance practitioners or in firms sensitive to financial market events. The course develops an understanding of the forces shaping financial institutions and markets. The vocabulary and analytical structures learned in this course will be useful in persuasively arguing a position as part of making business investment or strategy decisions. The course will be extremely useful for finance students considering careers in commercial or investment banking, real estate, investment management, or managing small or start-up firms. The course will likewise be very useful for non-finance students needing general background in the functioning of financial markets because of their importance to the success of business strategies. The course is also useful for students pursuing marketing or consulting careers in the financial services industry. Finally, the course will be helpful in shaping personal financial plans.

REQUIRED AND RECOMMENDED READINGS

The textbook for this course is *The Economics of Money, Banking and Financial Markets: Business School Edition (3rd edition)* by Frederic S. Mishkin (Pearson Addison-Wesley, 2013, ISBN 0-13-274137-7). In addition, students will be asked to locate readings relevant to the currently class discussion from *trade publications* to assign to the class and will lead a brief discussion of the reading and the publication. Daily reading of the *Wall Street Journal* is also highly recommended and articles of particular interest to this class will be announced and distributed through Blackboard. Finally, additional required or recommended readings will be posted on the Blackboard site for the course.

TEACHING PHILOSOPHY

My purpose is to go beyond the textbook in lectures and class discussion. I will distribute for each class a list of learning objectives, PowerPoint slides, and occasionally other materials, for the class that week via Blackboard. The weekly objectives will also contain vocabulary for review and recommended readings from the *Wall Street Journal*. On the basis of these materials and other readings, I will combine lecture and discussion to review basic concepts presented in the text, integrate current financial market events into the course framework, and finally extend the analysis into areas which are the subject of study or debate stimulated by current research or developments. I firmly believe that learning is only possible by doing, and will require a group project and expect classroom participation demonstrating an ability to apply course material to real-world problems.

GROUP PROJECT

Students must form groups of *three or four* students to work on a group project. A list of topics will be distributed in the third week of classes, but students are encouraged to choose a subject of personal interest or professional relevance subject to my approval. The main requirements of the group project are: (1) a clearly stated question, theoretical issue, or policy problem must be defined as the subject of analysis for the project; (2) an analytical statement (mathematical model or statistical implications) of the problem based on research or identified in the professional or trade publications must be presented such that a quantitative analysis of the issue can shed light on evaluation of the problem; and (3) financial market data must be analyzed to address the issues raised by the topic. We will provide examples of the research tools to be applied in the research for this project, and other sources of information will be provided. The project must be submitted as a three to five-page paper emphasizing the group's finding with complete references and up to

three pages of accompanying tables and graphs supporting conclusions. Students will be asked to present preliminary results to the class during class sessions at the end of the semester. The group project paper is due on December 1 (Week 15) and each student must submit a confidential *peer evaluation form* in order to receive credit for the project.

WEEKLY RESEARCH AND DISCUSSION ASSIGNMENT

Each student group will be assigned a class session and will research the *trade literature* and *Federal Reserve publications*, or other official or trade sources to identify publications and research relevant to the week's discussion. The group will find and download an article for distribution to the class and the group will lead a brief (5 to 8 minute) class discussion on the goals, publications, and role of the trade association or governmental agency in providing or reporting on financial market data or activity. The goal is to find out how industry professionals view the problems we are discussing and to expose students to the vast and fascinating trade and professional literature routinely read by people working in financial markets. The weekly roster of research and discussion leaders will be determined at the beginning of the semester and I will guide students in their search for readings and materials. If practical from the point of view of scheduling and topics covered, the class discussion can be related to the topic of the group project.

GRADING

Course grading will be based on the following:

Class Participation	15%
Take-home midterm	20%
Group project	30%
Final examination	35%

Class participation will be based on students' ability to respond to cold-call questions (on a random basis) and volunteered answers with zero credit when a student is called upon and is absent. In addition, class participation will be based on the general quality of a student's identification of interesting trade publication articles and contribution to the class discussion and overall learning experience.

The group project will be graded on both completeness and reliability of data gathered for the project, the quality of the analysis, and clarity and persuasiveness of the written presentation. Individual team member's grade on the project may be adjusted according to individual team member's contribution as determined by a *peer evaluation form*.

OFFICE HOURS

Office hours are scheduled before class on Mondays and Wednesdays from 3:00pm to 4:00pm. I will be available after class on Wednesdays to answer questions or set up special appointments.

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**MONEY AND CAPITAL MARKETS
COURSE SYLLABUS**

Week 1 Financial System Overview: Economic Data and The Flow of Funds

August 27

Required Reading: Chapters 1 to 3 (in the text)

Week 2 Interest Rates: Basic Determinants

September 3

Required Reading: Chapters 4 and 5

Week 3 Risk and Term Structure of Interest Rates

September 10

Required Reading: Chapter 6

Week 4 Stock Markets and Expectations

September 17

Required Reading: Chapter 7

Week 5 Risk Premia in Interest Rates

September 24

Review Chapter 6; Required Reading: KMV “A Model of Default Risk”
 (“Readings” on Blackboard)

Week 6 Financial Structure and Financial Crises

October 1

Required Reading: Chapter 8 and 9

Week 7 Banking Structure and Regulation

October 8

[TAKE HOME EXAMINATION DISTRIBUTED]

Required Reading: Chapters 10 and 11

Week 8 Bank Competition and Non-Bank Financial Institutions

October 15

[TAKE HOME MIDTERM EXAMINATION DUE]

Required Reading: Chapter 12 and 13

Week 9 Financial Derivatives and Conflicts of Interest

October 22

Required Reading: Chapters 14 and 15

Week 10 Money Supply and Central Banking

October 29

Required Reading: Chapters 16 and 17

Week 11 <i>November 5</i>	Monetary Policy and Financial Crises Required Reading: Chapter 18 and 19 Review contents of “Instruments of the Money Market”	
Week 12 <i>November 12</i>	Foreign Exchange and International Financial System Required Reading: Chapters 20 and 21	
Week 13 <i>November 19</i>	Monetary Policy Transmission and Effectiveness Required Reading: Chapters 22 to 23	
Week 14 <i>December 3</i>	Current Events in Financial Markets Class presentations by groups on topics of semester project <i>[GROUP PROJECT DUE]</i> Required Reading: Chapters 24 and 25	
<i>December 10</i>	Final Examination	7:00 to 9:00pm

FBE 524 – Money and Capital Markets - J. K. Dietrich
Group Project Topics

The following topics are derived by research by Eugene Fama and co-authors that are fairly easy to replicate:

- 1) Eugene F Fama. 1976. Forward Rates as Predictors of Future Spot Rates. Journal of Financial Economics, v3, n4 (October 1976): 361-77
- 2) Eugene F Fama. 1975. Short-Term Interest Rates as Predictors of Inflation. American Economic Review, v65, n3 (June 1975): 269-82
- 3) Eugene F Fama. 1984. Forward and Spot Exchange Rates . Journal of Monetary Economics, v14, n3 (November 1984): 319-38
- 4) Eugene F Fama 1984. Term Premiums in Bond Returns. Journal of Financial Economics, v13, n4 (December 1984): 529-46
- 5) Eugene F Fama; Kenneth R French. 1987. Commodity Futures Prices: Some Evidence on Forecast Power, Premiums, and the Theory of Storage. Journal of Business, v60, n1 (January 1987): 55-73
- 6) Eugene F Fama; Robert R Bliss. 1987. The Information in Long-Maturity Forward Rates. American Economic Review, v77, n4 (September 1987): 680-92

Other articles involving analysis of financial market data are referenced in our textbook:

- 7) Eric M. Leeper and David B. Gordon. 1992. In search of the liquidity effect. Journal of Monetary Economics, v. 29, pp. 341-369. (Chapter 5, footnote 6)
- 8) James Poterba and Lawrence Summers. 1988. Mean Reversion in Stock Prices: Evidence and Implications. Journal of Financial Economics, v. 22, pp. 27-59, and other references. (Chapter 7, footnote 167)

The following topics require some research in Crocker Library resources to identify analysis that can be replicated:

- 9) Estimate the subsidy to shareholders of the GSEs formed by the implicit guarantee on their debt
- 10) Replication of a U.S. study in a foreign market.
- 11) Term structure as a forecaster of economic conditions (recessions).

I am adding to this list topics related to the Financial Crisis and analyses of the crisis in articles or books to be presented later in the course. This list is intended mainly to guide your group's choice of topics and structure your search for research in your area of particular interest. I am ready to work with your group to identify and refine your analysis.