

## SUBJECT PROGRAMME

### FIN 422: THE ADVANCED THEORY OF FINANCIAL MARKETS AND INSTITUTIONS

**Subject Lecturer:** Dr. Blerina Dervishaj  
**Load:** 6 credits, 3 lecture, 1 seminar  
**Subject typology:** Lende karakterizuese e programit  
**Aademic year/ semester:** 2020-2021/ second  
**Subject type:** obligatory  
**Study programme:** MASTER OF SCIENCES/ Finance  
**Subject code:** FIN 422  
**Lecturer's email:** blerina.dervishaj@univlora.edu.al

#### SUMMARY AND LEARNING OUTCOMES:

The course "Markets and Financial Institutions" offers a complete overview over the modern financial markets: the characteristics of different types of securities, the organization of trade and financial intermediaries. Initially, the role of financial markets and financial institutions is addressed, focusing also on interest rates and the role they play, in individual day-to-day decision-making and in the overall economy. We continue with studying and analyzing the characteristics of the basic financial instruments such as bonds, shares and financial derivatives. During the course, students will be theoretically and practically introduced to the way the Exchange works. Finally, we study financial intermediaries, focusing especially on the functions and actions of commercial banks and investment banks, as some of the most important and active actors in financial markets.

At the end of the course students will be able to gain knowledge on: 1. Financial markets, their organization, as well as the main active participants and securities in these markets; 2. The role of financial markets in the economy; 3. International experiences

#### MAIN CONCEPTS

1. Financial Markets - Monetary Market, Capital Market, Foreign Exchange Market, Derivative Market.
2. Financial instruments - shares, bonds, derivatives.
3. Financial intermediaries - commercial bank, investment bank, broker-dealer.
4. Stock exchange - financial intermediaries, transactions, trading orders.

#### SUBJECT TOPICS

##### WEEK 1: Lecture I – Introduction of Financial Markets and Institutions

At the end of this week, you should know:

- 1-1 Distinguish between primary and secondary markets
- 1-2 Distinguish between money and capital markets
- 1-3 Understand what foreign exchange markets are.
- 1-4 Understand what derivatives markets are.
- 1-5 Get to know the different types of financial institutions.
- 1-6 To know the different types of services provided by financial institutions.

- 1-7 Familiarize yourself with the risks faced by financial institutions.
- 1-8 Understand why financial institutions are regulated.
- 1-9 Understand why financial markets are becoming increasingly important globally.

**Obligatory Literature: “Financial Markets and Institutions” Anthony Saunders & Marcia Cornett Chapter 1;**

### **WEEK II: Lecture II – Interest Rates Determinants**

At the end of this week, you should know:

- 2-1 Who are the main providers of borrowed funds.
- 2-2. who are the main researchers of borrowed funds.
- 2-3. how equilibrium interest rates are determined.
- 2-4. consider the factors that cause the shift of supply and demand curves for borrowed funds.
- 2-5. Consider how interest rates change over time.
- 2-6. to know which specific factors determine the interest rates.
- 2-7. examine the various theories that explain the term structure of Interest rates.
- 2-8. Understand how forward interest rates can be predicted by time structure of interest rates.
- 2-9. Understand how interest rates are used to determine current and future values

**Obligatory Literature: “Financial Markets and Institutions” Anthony Saunders & Marcia Cornett Chapter 2**

### **WEEK III: Lecture III – Interest Rates and Securities Pricing**

At the end of this week, you should know:

- 3-1. Understand the changes in the required rate of return, the expected rate of return, and the level of return realized.
- 3-2. Calculate bond values.
- 3-3. Calculate net capital values.
- 3-4. Evaluate how securities prices are affected by interest rate changes.
- 3-5. Understand how the maturity and level of the coupon affect the price sensitivity of the security against a given change in the interest rate.
- 3-6. Know what the duration is.
- 3-7. Understand how maturity, the required rate of return, and the coupon level affect the duration of a security.
- 3-8. Understand the economic meaning of duration.

**Obligatory Literature: “Financial Markets and Institutions” Anthony Saunders & Marcia Cornett Chapter 3**

### **WEEK IV: Lecture IV – Money Markets**

At the end of this week, you should know:

- 4-1 Define money markets.
- 4-2. Identify the main types of money market securities.
- 4-3. Consider the process used to issue Treasury securities.

- 4-4. List the main participants in the money markets.
- 4-5. Consider the extent to which foreign investors participate in US money markets.
- 4-6. Understand key developments in the euro money markets.

**Obligatory Literature: “Financial Markets and Institutions” Anthony Saunders & Marcia Cornett Chapter 5**

**WEEK V: Lecture V: Bond Markets**

At the end of this week, you should know:

- 5-1. Risks associated with investing in corporate bonds;
- 5-2 What is a bond with a call for early repayment;
- 5-3 What are bonds with special features and why are they issued;
- 5-4 Classification of global financial markets;
- 5-5 What is the foreign bond market;
- 5-6 Methods of distributing new government bonds;
- 5-7 Issuance by sovereign issuers of inflation-indexed bonds;

**Obligatory Literature: “Financial Markets and Institutions” Anthony Saunders & Marcia Cornett Chapter 6**

**WEEK VI: Lecture VI: Mortgage Markets**

At the end of this week, you should know:

- 6-1 Distinguish between a mortgage backed security and a mortgage.
- 6-2. Describe the main types of mortgages issued by financial institutions.
- 6-3. Identify the main features of a mortgage loan.
- 6-4. Consider how a mortgage depreciation schedule is determined.
- 6-5. Describe some of the new innovations in mortgage financing.
- 6-6. Determine a mortgage sale.
- 6-7. Define a collateralized mortgage loan obligation.
- 6-8. List the main holders of mortgage loans in the United States.
- 6-9. Describe the trends in international mortgage insurance.

**Obligatory Literature: “Financial Markets and Institutions” Anthony Saunders & Marcia Cornett Chapter 7**

**WEEK VII: Lecture VII – Stock Market**

At the end of this week, you should know:

- 7-1. Major reasons for structural changes in the stock market;
- 7-2. Trading mechanisms, such as: types of orders, sales in white and transactions through participating accounts;
- 7-3. Trading agreements to meet the requirements of institutional traders, such as: block trading and program trading;
- 7-4. What is the upper market and its role in trading by institutional investors;
- 7-5. Price limits set by stock exchanges: automatic issuers and trading intervals;

**Obligatory Literature: “Financial Markets and Institutions” Anthony Saunders &**

## **Marcia Cornett Chapter 8**

### **WEEK VIII: Lecture VIII – Foreign Exchange Market**

At the end of this week, you should know:

1. Provide knowledge on foreign exchange markets.
2. Explain how different factors affect exchange rates.
3. Explain how to predict exchange rates.
4. Describe the use of exchange rate derivatives.
5. Explain international arbitration.

**Obligatory Literature: “Financial Markets and Institutions” Anthony Saunders & Marcia Cornett Chapter 9**

### **WEEK IX: Lecture IX – Derivative Market**

At the end of this week, you should know:

1. Provide knowledge on future financial contracts.
2. Explain how futures based on a single stock are used to speculate on projected stock price movements
3. Explain why stock option premiums change.
4. Explain how stock options are used to speculate.
5. Explain how stock options are used to protect.
6. Explain the use of stock index options.
7. Explain the use of options in the future.
8. Describe the types of swap contracts
9. Explain the risks and swap contracts of interest rates.
10. Explain the prices and swap contracts of interest rates.
11. Identify the factors that affect the performance of swap interest rate contracts.

**Obligatory Literature: “Financial Markets and Institutions” Anthony Saunders & Marcia Cornett Chapter 10**

### **WEEK X dhe XI: Lecture X dhe XI – Commercial banks, Depository Institutions**

At the end of this week, you should know:

1. Depository institutions;
2. The problem of assets / liabilities faced by depository institutions;
3. The way in which a depository institution generates income;
4. Differences between commercial banks, savings and loan associations, commercial banks and credit unions;
5. The problem of assets / liabilities faced by all depository institutions;
6. Risks faced by depository institutions;
7. Available sources of funding for commercial banks and savings institutions;
8. Capital-based capital requirements.

**Obligatory Literature: “Financial Markets and Institutions” Anthony Saunders & Marcia Cornett Chapter 14**

**WEEK XII, XIII, XIV: Lectures XII, XIII, XIV – Insurance Companies, Mutual Funds,**

### **Pension Funds.**

At the end of this week, you should know:

1. The nature of the activity of insurance companies;
2. The way insurance companies generate income;
3. The difference between a joint stock company and a company of mutual interest;
4. Different types of life insurance policies and those of property and accident insurance;
5. General characteristics of asset management companies;
6. Different types of investment companies: mutual investment funds, closed investment companies and funds with participation units;
7. The way in which the share prices of mutual investment funds and closed investment funds are determined;
8. Distinguishing investment companies, depending on their investment objectives
9. The economic benefits offered by investment companies

**Obligatory Literature: "Financial Markets and Institutions" Anthony Saunders & Marcia Cornett Chapters 15, 17, 18**

### **WEEK XV: Lecture XV –Investment Banks**

At the end of this week, you should know:

- 1 The nature of the investment bank's activity;
2. Activities that generate income for investment banks;
3. Activities of investment banks that require the use of their capital;
4. The role that investment banks play in underwriting securities;
5. Different types of signature agreements;
6. The different roles that investment bankers play in the process of mergers and acquisitions;
7. What is meant by commercial investment bank;
8. Why investment banks create and trade risk control instruments.

**Obligatory Literature: "Financial Markets and Institutions" Anthony Saunders & Marcia Cornett Chapter 16**

### **FINAL EXAM**

### **KNOWLEDGE FORM OF CONTROL**

**ATTENDANCE:** Presence in teaching activities in auditorium is mandatory at 75%

**CONTINUOUS CONTROL:** Level of discussion in seminars (10%), Final exam (90%)

**The grades will be calculated as follows:**

- $S \geq 91\% = 10$
- $81 \leq S < 90\% = 9$
- $71 \leq S < 80\% = 8$
- $61 \leq S < 70\% = 7$
- $51 \leq S < 60\% = 6$
- $41 \leq S < 50\% = 5$
- $S < 40\% = 4$

**LITERATURA**

**a. Mandatory Basic Literature:**

" **Financial Markets and Institutions**" Anthony Saunders & Marcia Cornett, 5-th Edition

**b. Recommended Literature:**

Financial Markets & Institutions, Mishkin. F, Eakins, 8-th Edition

**Financial Markets and Institutions**, Lavdosh Zaho

**CONCLUDING REMARKS FROM THE LECTURER**

Students are required to observe the schedule of their presentation in the auditorium.

During the course of the lesson, active student participation is required and encouraged, as in the classroom lectures and seminars.

The use of electronic means of personal communication is not permitted during the lesson.