DSEF05 – Banking, Financial Institutions and Markets

Masters of Commerce
Semester III
DSE – Elective Paper
Banking, Financial Institutions & Markets

Course Type/ Course Code	Course Title	Lectures	Tutorials	Practical	Credit	Pre-requisites
DSEF05	Banking, Financial Institutions and Markets	3	1	0	4	NIL

Objective: The objective of this course is to equip students with the ability to analyze the functioning of the financial system, its constituents, principles on which it operates, inter linkages, regulatory concerns, and implications for society &policy formulation.

Learning Outcomes: After completion of the course, learners will be able to:

- Analyze the working of financial institutions and markets both individually and as an interlinked system.
- Evaluate the factors affecting interest rates and yield curve and the importance of change in interest rates for all constituents of the financial system
- Assess the organization, role, functioning and need for regulation of different types of financial markets and the implications of the same on society.
- Evaluate the organization, role, functioning and need for regulation of different types of institutions like mutual funds, pension funds, insurance, venture capital, private equity and hedge funds and the implications of the same on society.
- Critically analyze the pivotal role of banking in the financial system and the reasons for it being among the most tightly regulated industries in the world.

Contents:

Unit I **(9 Hours)**

Loanable funds theory, factors affecting interest rates, yield differentials of debt instruments; Term structure of interest rates: Pure expectations theory, Liquidity premium theory, Segmented markets theory & Preferred habitat theory, yield curve.

Unit II **(12 Hours)**

Role of government in financial markets; investment banking; primary and secondary markets, integration of world capital markets, short selling, stock market indices, buying on margin, Efficient market hypothesis; Regulation.

Unit III **(9 Hours)**

Mutual Funds-Types of mutual funds schemes, ETFs, Expenses associated with mutual funds; Hedge funds, venture capital funds, private equity funds and their regulation.

Pension Funds-Issues in saving for retirement & role of the financial system; Defined benefit, defined contribution and hybrid pension plans; Pension funds as financial intermediaries and their regulation.

Insurance-Incentive problems in insurance-moral hazard & adverse selection, pure premium, premium smoothing etc.; Reinsurance, catastrophe insurance, captive insurance.

Unit IV **(15 Hours)**

An overview of the banking industry; Balance sheet of a bank; Sources & uses of funds of banks, fee based & off balance sheet activities; Securitization; Bank earnings & bank performance; Reasons for banks being heavily regulated, bank run, deposit insurance, capital adequacy regulation and a critique of the Basel norms; The problem of moral hazard & too big to fail institutions.

Tutorial Exercise:

The students shall be asked to critically analyze the working of a financial institution and its regulations, in order to assess its impact on larger society. Reading newspapers and debating contemporary issues in finance is a must for this paper.

Suggested Readings:

- Kidwell, D., Blackwell, D., Whidbee, D. & Sias, R. (2016). *Financial Institutions Markets and Money.*Wiley.
- Kohn, M. (2004). *Financial Institutions and Markets.* Oxford University Press.
- Madura, J. (2022). *Financial Markets and Institutions*. Cengage.
- Mishkin, F.S. (2019). *The Economics of Money Banking and Financial Markets*. Pearson
- Fabozzi, F.J., Jones, F.J., Fabozzi, F.A., and Mann, S.V., (2019). *Foundations of Global Financial Markets and Institutions*, The MIT Press.