

Kobe University
Graduate School of Economics

Financial Markets Workshop [E650][E331][E818]

Syllabus

First Semester, 2018

Instructor

Clinton Watkins Ph.D
Office: Building III Room 406
Hours: By appointment

Teaching Assistant

Yi Zhang

Lecture Times: Wednesday 17:00 - 18:30

Room: I324

Course Description:

This course will develop students' skills in applying economic and financial theory to the real time analysis of macroeconomics, financial markets and investment strategy. The course is conducted in a workshop style. The class sessions be a combination of lectures given by me, student presentations and student led discussion. We will develop a strategy for interpreting and forecasting developments in financial markets and important economies, focussing on cycles and trends. Our approach will draw on theory from finance and macroeconomics. We will examine business cycles and other cycles in the economy, as well as interactions between monetary policy, the financial markets and the real economy. We will analyse current developments in international financial markets over the semester, and focus on a number of hot topics in international financial markets. An important part of the course is researching and discussing views and counter-views on what are the main economic and financial factors driving financial market returns, how the factors are affecting returns, and what may be expected to happen in the future. We focus on tactical allocation over the main asset classes. The class is intended to be very practical, and focus on what is happening in financial markets during the semester. We will also look at some research papers and interpret their implications for our analysis of trend and cycle.

Topics will include economic cycles and trends, the business cycle, monetary policy's impact on financial markets, bond markets and credit risk, equity markets and corporate profits, commodity markets, important macroeconomic and financial data releases, and how practitioners view the macroeconomic outlook.

Course Objectives:

By the end of the course, students should:

1. Be familiar with the pattern of economic news that shapes the consensus views on future financial asset returns.
2. Be able to differentiate signal from noise in the economic news and data flow.
3. Understand the importance and patterns of economic cycles and trends, financial market fluctuations and exogenous shocks.
4. Be able to discuss well-reasoned views about what is happening in international financial markets, and be able to present valid counter-views to consensus.

Credits: 2.0

Language: English

Evaluation:

Assignments & Presentations	50%
Active Class Participation	10%
Final Exam	40%

Assignments & Presentations: Students will be assigned economies and financial markets (including specific economic and financial barometers) to monitor, analyse and forecast over the semester. The results of this analysis will be presented to the class as regular brief updates. Views and counter-views on the economic and financial barometers will be discussed in class. Exactly how we do this will depend on the size of the class, and will be discussed on the second or third class. Students are required to submit a report at the end of the semester summarising their analysis during the course. Some brief assignments will be issued related to the lecture topics, or current important issues in the financial markets.

Active Class Participation: The class participation grade will be assessed based on each student's contribution to questions and discussion over the semester.

Final Exam: The final exam will be held on Wednesday 7 February 2018. In principle, no supplementary exams will be provided unless there are extenuating circumstances. The exam will be closed book. A calculator may be required. Mobile telephones, tablets or other devices are not permitted.

It is your responsibility to make sure you attend the final exam and hand in the required assignments and give the presentation on time. Please contribute to discussion and questions during class without hesitation.

Prerequisites & Preparation: The course will require students to bring together their knowledge of macroeconomics and finance in a practical fashion. The concepts we will use are not technically difficult. Students who have not taken intermediate macroeconomics or finance may need to do some self study of unfamiliar topics. Please be sure to ask questions during the course if you do not understand the topics being discussed. The following finance textbooks are useful references: Fabozzi et al. (2014), Pilbeam (2010), Mishkin (2013), Cecchetti and Schoenholtz (2015). Mankiw (2010) is a good and accessible reference on macroeconomics, and Melvin and Norrbin (2013) is good for international finance. Prior to the course, students familiarize themselves with current economic issues being discussed in the financial press - read Bloomberg News or Reuters News (or The Economist, The Financial Times or The Wall Street Journal if you have access).

Textbook: Required readings will be provided as handouts in class.

References and Required Readings: We will cover the chapters in McGee (2015), which provides a useful framework for the analysis of trends and cycles, and tactical asset allocation investment strategy. These will be provided in class. Further references for each topic will be provided during the course. The following books are useful and reasonably practical references on macroeconomics, financial markets and economic data: Leamer (2009), Valdez and Molyneux (2013), Williams and Turton (2014), Baumohl (2013).

Finance Glossary: Investopedia (www.investopedia.com) is a useful reference for financial terminology. Finance Textbooks such as Pilbeam (2010) also contain lists of financial terms.

Useful Websites: The following websites are useful references.

- Bloomberg: www.bloomberg.com
- Reuters: www.reuters.com
- The Wall Street Journal: <http://online.wsj.com/asia> (subscription required)
- The Financial Times: <http://www.ft.com/home/asia> (subscription required)
- The Economist: <http://www.economist.com/> (subscription required)
 - Also a paper copy of The Economist is available in the library.
- Markit: <https://www.markiteconomics.com/Public/Page.mvc/PressReleases>
- Institutional Investor: <http://www.institutionalinvestor.com>
- International Monetary Fund (IMF): <http://www.imf.org>
- Bank for International Settlements (BIS): <http://www.bis.org>
 - BIS national central bank website directory: <http://www.bis.org/cbanks.htm?m=2>
- FRED: <https://fred.stlouisfed.org/>
- US survey of forecasters: <https://www.phil.frb.org/research-and-data/real-time-center/survey-of-professional-forecasters/>
- Top Economics Blogs: <https://www.intelligenteconomist.com/economics-blogs/>
- Seeking Alpha: seekingalpha.com/
- The Calculating Investor: www.calculatinginvestor.com/
- Yahoo Finance: <http://finance.yahoo.com/>
- Trading Economics: <https://tradingeconomics.com/>

Topic and References Guide
Topic 1: Course Introduction
References: <ul style="list-style-type: none"> • Syllabus. • McGee (2015), Chapter 1. • International Monetary Fund (2017)
Topic 2: The Business Cycle
References: <ul style="list-style-type: none"> • McGee (2015), Chapter 2.
Topic 3: Monetary Policy
References: <ul style="list-style-type: none"> • McGee (2015), Chapter 3 • Faust and Leeper (2015)

Topic 4: Bonds & Credit
References: <ul style="list-style-type: none"> • McGee (2015), Chapter 4
Topic 5: The Global Credit Cycle
References: <ul style="list-style-type: none"> • Cerutti et al. (2017)
Topic 6: Equity Markets & Corporate Profits
References: <ul style="list-style-type: none"> • McGee (2015), Chapter 5
Topic 7: Currency Markets
References: <ul style="list-style-type: none"> • To be advised.
Topic 8: Commodities and Tangible Assets
References: <ul style="list-style-type: none"> • McGee (2015), Chapter 6
Topic 9: Long Horizon Investments
References: <ul style="list-style-type: none"> • McGee (2015), Chapter 7
Topic 10: Lessons from the Financial Crisis
References: <ul style="list-style-type: none"> • McGee (2015), Chapter 8
Further Topics if Time Permits
References: <ul style="list-style-type: none"> • To be advised.

Note:

- The topics and schedule may be adjusted during the course.
- Additional required readings will be assigned during lectures.

References

- Baumohl, B. (2013). *The secrets of economic indicators: hidden clues to future economic trends and investment opportunities*. Wharton School Pub, 3rd edition.
- Cecchetti, S. G. and Schoenholtz, K. L. (2015). *Money, Banking and Financial Markets*. McGraw-Hill.
- Cerutti, E., Claessens, S., and Rose, A. K. (2017). How important is the Global Financial Cycle? Evidence from capital flows. Bank for International Settlements Working Paper No. 661.
- Fabozzi, F. J., Modigliani, F., and Jones, F. J. (2014). *Foundations of Financial Markets and Institutions*. Pearson Education.
- Faust, J. and Leeper, E. (2015). *The Myth of Normal: The Bumpy Story of Inflation and Monetary Policy*.
- International Monetary Fund (2017). *World Economic Outlook Update: July 2017*. Technical report, International Monetary Fund.
- Leamer, E. E. (2009). *Macroeconomic patterns and stories*. Springer-Verlag.
- Mankiw, N. G. (2010). *Macroeconomics*.
- McGee, R. T. (2015). *Applied financial macroeconomics and investment strategy: a practitioner's guide to tactical asset allocation*. Palgrave MacMillan, New York, 1st edition.
- Melvin, M. and Norrbin, S. C. (2013). *International Money and Finance*.
- Mishkin, F. S. (2013). *The Economics of Money, Banking and Financial Markets*. Pearson.
- Pilbeam, K. (2010). *Finance and Financial Markets*. Palgrave Macmillan.
- Valdez, S. and Molyneux, P. (2013). *An introduction to global financial markets*. Palgrave Macmillan, 7th edition.
- Williams, T. and Turton, V. (2014). *Trading Economics: a guide to economic statistics for practitioners and students*. John Wiley & Sons, Ltd, Chichester, UK, 1st edition.