

Akita International University
Global Business Program

Financial Theories & Applications [ECN301]

Syllabus

Spring Semester, 2021

Instructor

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Office: A4-7

Office Hours: Monday 17:00-18:00 or by appointment.

Scheduled Lecture Times: Monday and Wednesday, 14:00 – 15:15. See the detailed course schedule on the last page.

Room: D205 (for parallel class sessions).

Course Description:

This is foundation course in finance that focuses primarily on financial markets and instruments, with some coverage of institutions. The course provides students with an understanding of the roles of financial markets, how financial securities are priced and traded, and the structure and functioning of the global financial system. I cover important security pricing and valuation calculations as well as theory and intuition behind the functioning of the financial system.

I explain how the concepts we cover are used in practice referring to my experience in the finance industry and central banking. I also touch on some of my research relating to commodity and equity markets, as well as market microstructure.

Reasons you may wish to take this course:

1. Gain a fundamental level of financial literacy that will be helpful in:
 - (a) a future business, government or NPO career, and
 - (b) managing your personal finances.
2. Prepare for more advanced study of finance, such as courses in Portfolio Management and Behavioural Finance at AIU, or finance courses during study abroad.
3. Learn about the functioning of the global financial system so you can understand news about financial developments and the implications for the global economy and society.

Finance is a difficult field and thus this course is challenging. You must be prepared to practice by doing all of the assignments if you wish to succeed in this course.

Course Objectives:

Students' objectives for the course are as follows.

1. Understand the roles of various financial markets and institutions.
2. Understand the theory behind valuing financial securities.
3. Be able to calculate valuations for financial securities.
4. Understand how financial securities are traded.
5. Understand the characteristics of various financial markets.
6. Gain a broad understanding of the global financial system.

Credits: 3.0

Language: English

On-line/Parallel Course Format:

The course consists of the following components:

1. Course Mode: The course will be conducted as a combination of on-demand video lectures and interactive on-line/parallel (A) sessions. Parallel sessions will be included if five or more students commit to regularly attend sessions in the classroom. Some parallel sessions may be conducted in parallel (B) format, that is, with the instructor connecting remotely. If less than five students commit to regularly attend in the classroom, the course will be conducted completely on-line.
2. Introductory Sessions: The first two lectures during the first week of the semester will be held on-line using Zoom. Please use the Zoom link on AIMS to join the lectures. I will outline the course contents and discuss how we are going to do the course in on-line/parallel format. Please also ask me as many questions as you like about the course. I will give lectures synchronously for the first three lectures, covering topics (1) and (2).
3. Video Lectures: I explain the course topics (3) to (8) in on-demand videos. Links to the videos will be posted on AIMS. I expect you to watch the videos according to the schedule on the last page of this syllabus. There are about 14 lecture sessions of videos in total.
4. Lecture Slides: These will be posted on AIMS. Please briefly look over the slides before watching the video, and use the slides while watching the video.
5. Readings: Required readings for the course are primarily chapters from the textbook. Additional readings may be provided in the lectures or assignments and links to these will be posted on AIMS.
6. Assignments: There are eight assignments for the course. Each assignment will be posted on AIMS. Please submit your answers through AIMS by the due date.
7. On-line/Parallel Discussion Sessions on Zoom: We will have a regular interactive discussion sessions approximately each week. We will discuss the assignment solutions and I will answer questions and recap some sections of the course on request. I will also announce any changes in the course content or schedule during these sessions. I expect all enrolled students to attend all of these sessions unless there are extenuating circumstances. Please notify me in advance if you cannot attend a session. For students taking the course on-line, a Zoom meeting link is posted in AIMS. Use the same link for each session.
8. Slack Workspace: Please communicate with me about the course using the course Slack group. You can use this for any communication about the course, questions and discussion. You can send private messages to me, discuss the course in the general channel and send messages to each other. I encourage you to discuss the course with each other and work together (however your assignment answers must be your own, in your own words, which will help you remember the course material better). I will answer your questions approximately daily via Slack and/or in the weekly discussion session. Unless your question is of a private nature, I may post the answer to the Slack general channel so that all students can benefit from it.
9. Office Hours: You may request to meet on Zoom or Skype during my office hours or at another time by appointment. Please send me a message on Slack to arrange a meeting.
10. Three Exams: There will be three exams. Please see the detailed schedule at the end of the syllabus for the exam dates.
11. Conduct: Please observe AIU's rules for on-line classes. In particular, keep your video on to facilitate interaction with me and your class-mates.

Your work-flow for each topic should be: Overview the lecture slides → Watch the video lecture while studying the lecture slides → Do reading where necessary to solidify your knowledge → Ask questions in the discussion sessions → Do the assignment → Ask questions when we review the assignment in the discussion session.

You can ask questions at any time via the Slack workspace and during each interactive discussion session on Zoom.

If you are located in a different time zone or will otherwise have legitimate difficulty in attending

scheduled on-line sessions, please contact me at the beginning of the course.

Evaluation:

Assignments	25%
Exam 1	25%
Exam 2	25%
Exam 3	25%

Assignments: Please complete the assignments to fully understand the concepts presented in the course, and to practice and prepare for the examinations. Each assignment will be coarsely graded as pass (100%) and fail (0%). The assignments must be submitted by their due date via AIMS in order to receive a grade. I may scale up the assignment contribution to your final score. *Students that complete all the assignments on time do well in the exams.*

Exams: There will be three exams held as indicated on the schedule. All exams will be held on-line (there will be no classroom sessions for the exams). Each exam will primarily cover the preceding third of the course. However, some cumulative knowledge over the course will be required. You may use your own paper notes only to help you answer the questions. **You are not permitted to use the internet or refer to on-line or AIMS course materials to answer questions during an exam. I will require you to attest that you observed this rule when you do your exam. Even though you may refer to your own notes during the exam, you must answer the exam questions with your own words and not copy the lecture materials or on-line sources.** Many of the questions will be interpretive which means you must be well prepared for the exam questions in order to score well. A calculator will be required for some questions. **You may not use computer applications for calculations in your exams.** In principle, no supplementary exams will be provided unless there are extenuating circumstances. See the schedule at the end of the syllabus for the exam dates. Typically the exam scores are scaled at the end of the course. I will indicate an approximate passing score for each exam when we discuss the exam solutions.

Exams will be held using Google Suite. You must be logged into your AIU account to complete the exams. Exam rules will be provided before each exam.

It is your responsibility to make sure you watch the video lectures, attend the on-line/parallel sessions, complete the exams and hand in the required assignments on time.

Textbook:

The textbook for the course is:

- Madura, J. (2018). *Financial Markets and Institutions*. South-Western Cengage Learning, 12th edition.

The e-book version is available from the [Cengage e-commerce site](#) for ¥5,510 including tax using the discount code JPWSD2021SP. Please note that the e-book purchase is not refundable. Check that the price in the shopping cart is discounted after applying the discount code. The supported browser is Google Chrome. Errors might occur when using Firefox, Safari, and Microsoft Edge.

Prerequisites & Preparation:

This course covers the fundamentals of financial markets and institutions, and does not require previous knowledge in finance. I expect familiarity with introductory to intermediate mathematics and statistics.

Students should familiarize themselves with current financial market news and the issues being discussed in the financial press. Assignments may require research using the financial press and interpretation of financial news articles.

AIU students can access **Nikkei Telecom**, a professional financial markets newswire service, via the Nakajima Library website. Nikkei Telecom has articles in Japanese and English, including some of

the top stories each day from the Wall Street Journal. I recommend you check a few articles on Nikkei Telecom each day to familiarise yourself with developments in the financial markets and the terminology used. **Access the service from 日経テレコン on the [Nakajima Library Digital Resources site](#).**

Recommended free sources of financial news include:

- [Reuters Markets](#)
- [Bloomberg Markets](#)
- [CNBC](#)
- [Yahoo Finance News](#)
- [CNN Business](#)
- [MarketWatch](#)
- [Investing.com](#)
- [Investopedia News](#)

You do not need to refer to subscription-based financial news sites for this course, but if you are interested in good quality paid financial news I would recommend:

- [The Economist](#)
- [Financial Times](#)
- [Wall Street Journal](#)

Other Required Readings and References:

Additional brief readings, such as newspaper articles, may be allocated in the lectures or assignments. These will be uploaded to AIMS.

The following book is good practical reference book on financial markets. The book is not mandatory for this course. However, I recommend you purchase and study it if you are interested in finance.

- Arnold, G. (2012). *Financial Times Guide to the Financial Markets*. Financial Times-Prentice Hall. Available from [Amazon](#).

Other finance textbooks you may wish to consult include:

- Pilbeam, K. (2010). *Finance and Financial Markets*. Palgrave Macmillan.
- Fabozzi, F. J., Modigliani, F., and Jones, F. J. (2014). *Foundations of Financial Markets and Institutions*. Pearson Education.

Finance glossary: A good on-line reference for financial terms is [Investopedia](#). Make use of Investopedia to look up finance words. Finance textbooks such as [Madura \(2018\)](#) and [Pilbeam \(2010\)](#) contain lists of financial terms.

There are many easy to read and interesting books (not mandatory) which give you an entertaining big picture introduction to finance and the financial markets. Some that I recommend you read are:

- Lewis, M. M. (2006). *Liar's Poker*. Hodder.
- Lewis, M. M. (2011). *The Big Short: Inside the Doomsday Machine*. W.W. Norton, first edition.
- Malkiel, B. G. (2015). *A Random Walk Down Wall Street: The Time-tested Strategy for Successful Investing*. W.W. Norton, New York.

AIU Academic Dishonesty Policy:

In accord with AIU policies and good practices in higher education, acts of academic dishonesty such as plagiarism, cheating, forgery (on a paper, examination, test, or other assignment) will result in the failure of the course at a minimum. An act of academic dishonesty during the final examination or assignment in lieu of the final examination will result in failure of all courses registered in the relevant academic term. Cases of academic dishonesty will be reported to the Dean of Academic Affairs for relevant action.

Academic misconduct during on-line exams is taken very seriously and will be dealt with strictly. Remember that your good reputation takes a lifetime to build, but it can be destroyed with one stupid act.

Please participate in this course to the fullest extent of your ability and with your highest level of personal and professional integrity.

Topic and Reading Guide

Topic 1: Course Introduction

Reference: Syllabus

PART A – OVERVIEW OF MARKETS AND INSTITUTIONS

Topic 2: Role of Financial Markets and Institutions

Reading assignment: Madura Chapter 1.

Topic 3: Interest Rate Determination and Structure

Reading assignment: Madura Chapters 2 and 3.

PART B – DEBT MARKETS

Topic 4: Money Markets

Reading assignment: Madura Chapter 6.

Topic 5: Bond Markets

Reading assignment: Madura Chapters 7 and 8.

PART C – EQUITY MARKETS

Topic 6: Stock Markets

Reading assignment: Madura Chapters 10 and 11.

PART D – DERIVATIVES MARKETS

Topic 7: Futures Markets

Reading assignment: Madura Chapter 13.

Topic 8: Options Markets

Reading assignment: Madura Chapter 14.

Note:

- The topics and schedule may be adjusted depending on our progress over the semester.
- Additional readings may be assigned.

Week	Monday	Mode	Topic	Wednesday	Mode	Topic	Assignment (Due)
1	12 Apr.	OL	(1) Course Introduction	14 Apr.	OL	(2) Role of Markets & Institutions	–
2	19 Apr.	OL	(2) Role of Markets & Institutions	21 Apr.	OL	(2) Role of Markets & Institutions	–
3	26 Apr.	Video	(3) Interest Rate Determination★	28 Apr.	OL	Discussion of A1 (Topic 2)	A1 (Tue 27 Apr.)
GW	3 May	–	Catch-up & get ahead★	–	–	–	–
4	10 May	Video	(4) Money Markets★	12 May	OL	Discussion of A2 (Topic 3)	A2 (Tue 11 May)
5	17 May	Video	(5) Bond Markets	19 May	OL	Discussion of A3 (Topic 4)	A3 (Tue 18 May)
6	24 May	Video	(5) Bond Markets (6) Stock Markets	26 May	OL	Exam 1: Topics 2 – 4	–
7	31 May	Video	(6) Stock Markets	2 Jun.	OL	Discussion of A4 (Topic 5) & Exam 1	A4 (Tue 1 Jun.)
8	7 Jun.	Video	(6) Stock markets	9 Jun.	OL	Discussion of A5 (Topic 6)	A5 (Tue 8 Jun.)
9	14 Jun.	Video	(7) Futures Markets	16 Jun.	OL	Discussion of A6 (Topic 6)	A6 (Tue 15 Jun.)
10	21 Jun.	OL	Revision Discussion Topics 5 – 6	23 Jun.	OL	Exam 2: Topics 5 – 6	–
11	28 Jun.	Video	(7) Futures Markets	30 Jun.	OL	Discussion of Exam 2	–
12	5 Jul.	Video	(8) Options Markets	7 Jul.	OL	Discussion of A7 (Topic 7)	A7 (Tue 6 Jul.)
13	12 Jul.	Video	(8) Options Markets	14 Jul.	OL	Discussion of Topics 7 – 8	–
14	19 Jul.	OL	Discussion of A8 (Topic 8)	21 Jul.	OL	Revision Discussion Topics 7 – 8	A8 (Sun 18 Jul.)
15	26 Jul.	OL	Exam 3: Topics 7 – 8	–	–	–	–