

Finance 4000  
Money and Capital Markets  
Spring 1999

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*PURPOSE OF COURSE*

The major purpose of this course is to provide you with a sound knowledge of how financial markets and financial institutions work and some knowledge of appropriate responses to events in those markets and institutions. Events in financial markets have substantial effects on everyone, whether a person works in the financial industry, is attempting to finance a firm's operations, or just manages personal funds. In this course, you will study financial markets, including how to think about what happens in them and how to deal with opportunities and risks thrown up by those markets. You also will learn about financial institutions, their role in the economy, how they operate and are regulated and the opportunities and risks that face those who work in and deal with those institutions. In this course, we will spend substantial time examining issues that you will find reflected in current articles in the business press. Some of what you will read in the press will be sensible and correct; some of it will be nonsense. The principles learned in class will help you tell the difference.

*REQUIRED TEXT*

*Financial Markets and Institutions*  
Second edition  
Frederic S. Mishkin and Stanley G. Eakins

*ATTENDANCE*

Each class period is the same as a usual week of class; it would be unwise to miss many classes. No roll will be taken. Should you miss many classes, you are quite unlikely to do well and no penalty will be assessed beyond that direct one. Should you have what you believe to be a medical problem or a family emergency that requires your absence, please let me know and I will try to be accommodating to the extent feasible. One class meeting a week puts a substantial burden on both of us not to miss *any* classes absent a *serious* emergency.

*HOMEWORK*

I will not assign explicit homework. Still, I will indicate in class things that you would find it useful to do on your own to be sure that you understand the material. If you make an attempt at doing something that I have suggested and you would like to see me do it, ask and I will. If you don't ask, I won't bore you by doing it in class.

### TESTS

There will be two midterm exams and one final exam. The midterm exams will be given on February 16 and April 6. The final exam will be given during the scheduled time for the final exam: May 6, 3:30-6:30. These dates are final, although the material covered on the exams will depend on exactly what material has been covered by those dates.

The final will be comprehensive. The exams will include several short-answer (essay) questions and possibly some multiple-choice questions.

If you expect to miss an exam, you should notify me or the Department Secretary before the exam or within twenty four hours after the exam. If your absence is excused, then you may take a makeup.

### PROJECT

The purpose of the term project is to give you the opportunity and the incentive to seriously read financial articles and apply what you learn in class to understand them. If you think through some applications with the relevant principles covered in this course, you are far more likely to be able to use those principles after this class is over.

The basic setup is to put together a notebook consisting of comments applying principles from class to articles from the *Wall Street Journal* or other sources pertinent to this course. The articles themselves, or readable copies, must be submitted along with your comments. It will be best if you arrange the articles by topic and then either analyze them individually, as a whole or both. In this way, you can minimize repetition of the articles in your comments. You may or may not find it useful to prepare graphs and charts.

You get to (or, depending on your point of view, have to) pick out the topics yourself. I will not assign articles or topics. Pick out articles on subjects that interest you.

The general subject areas can be gleaned from the reading list below and more detail can be obtained from the more detailed subject listings in the textbook's Table of Contents. Examples of past topics are: whether stock prices are too high or too low; the likely course of interest rates in the future; changes in restrictions on branch banking; the effects of bank failures; and recent monetary policy and its likely effects on current and future interest rates. The only restriction is that topics must be of some general interest related to this course. An example of an unsuitable topic would be the effects of the Microsoft antitrust trial on the price of Windows NT.

If you are in doubt about the suitability of a topic or about your proposed analysis (i.e., examination of the details of the article or series of articles using principles from class), feel free to discuss with me the topic and what you intend to write. This will be most valuable when you have a proposed topic and a tentative outline of what you plan to write. For obvious reasons, I will not pre-grade a project or an analysis, but I will be happy to discuss your proposed analysis and make comments.

You should regard this project as equivalent to a term paper, not as a requirement that you put together a book. The grading will be based on what you say: brief summaries of the articles may or may not improve your analysis. Brevity is helpful to both of us.

How many topics you have will depend upon the topics chosen and how broadly you define them, but two generally is too few and twenty definitely is too many. Very successful projects have been analyses of single topics, such as the effects of variable interest rate mortgages, but such an analysis must be in substantial depth and should be discussed with me in advance.

There is no specific requirement concerning length, but almost undoubtedly two double-spaced printed pages is too few and twenty full double-spaced pages is too many.

This is an individual project, not a joint one to be done with others. I strongly recommend that you not leave this project to the last minute. The due date is the last day of class: April 17, 1999. Do not hand this in late without discussing it in advance with me. Late papers are subject to a penalty of one grade level or more.

*GRADES*

The exams and the project will determine your grade. The project will count for twenty-five percent of your grade. Each of the mid-term exams will count for twenty percent of your grade and the final will count for the remaining thirty-five percent of your grade.

*READINGS*

I have listed what I expect to cover each week. You should make a serious effort to read or at least look over the material in advance. One three-hour class instead of two or three classes a week makes it much more important that you have a good overview of what parts of the material seem mysterious to you before class.

I almost surely will deviate from this plan. As in financial markets, expectations in reading lists seldom are realized even though substantial thought and effort are invested in estimating what is likely to happen. Each week, I will tell you what I expect to cover the following week. If I forget, I will appreciate being reminded.

Subject	Reading	Date
Overview	Chapters 1 and 2	January 12
Understanding Interest Rates	Chapter 3	January 19
Portfolio Choice	Chapter 4	January 26
The Behavior of Interest Rates	Chapter 5	February 2
Risk and Interest Rates	Chapter 6	February 9
Review and Exam		February 16
Efficient Asset Markets	Chapter 7	February 23
Foreign Exchange, Money and Capital Markets	Chapters 8, 9 and 10	March 2
Spring Break		March 9
Financial Contracts and Financial Intermediaries	Chapter 12	March 16
Banking and Bank Regulation	Chapters 13 and 14	March 23
More on Banking and Bank Regulation	Chapters 15 and 16	March 30
Review and Second Exam		April 6
Other Financial Intermediaries	Chapters 17, 18 and 19	April 13
Risk Management and Hedging	Chapters 20 and 21	April 20
Hedging	Chapter 22	April 27
Final exam		May 6