

ECN 305/540

UNIVERSITY OF DETROIT MERCY
ANALYSIS OF FINANCIAL CONDITIONS

TEACHER: JAMES MOSBY
2004

SEPT.-DEC.,

OFFICE: BRIGGS 317
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OFFICE HRS: 12:45-2:00 (T,R) and BY APPOINTMENT

TEXT: Maureen Burton and Ray Lombra, The Financial System and the Economy,
Third Edition, 2002
John Kenneth Galbraith, A Short History of Financial Euphoria, 1993
www.bloomberg.com (Real time financial news)

In this course we study how lenders meet borrowers in the financial sector and the economic consequences (effect on interest rates and GDP) of these transactions. The financial sector consists of (1) financial markets or portals, where securities (IOUs) are traded and (2) the continually changing financial institutions (eg., commercial banks, investment banks, mutual funds, hedge funds).

The essential function of financial markets and financial institutions is to assist in the production of real goods and services. Purely speculative financial markets, i.e., those not based on producing real goods and services, will certainly end in crashes and there have been recent episodes of financial crisis reflecting poor governance and other factors (The Asian financial crisis in 1997, The Internet/Telecom bubble from 2000 to 2002, and even more recent cases of questionable financial reporting). An understanding of the operational and allocative efficiency of financial markets (our task in this class) can be helpful in avoiding future financial crises and in continuing the recovery of the U.S. economy.

As we move through the selected parts of the text, the instructor will assign a comprehensive set of study questions at the end of each chapter. The examinations will be based on these review questions and the lecture material.

Topics and Reading Assignments

I. Introduction and Foundations

- a. Review and analysis of basic concepts used in Economics and Finance
- b. Money, Financial Markets, and Interest Rates & Bond Prices

TEXT: Chapter 1 (Study Questions, pp.18-19; 1,2,5-8,12,13)
Chapter 4 (pp. 77-78; 2,5,7,15,19)
Chapter 2 (pp. 37-38; 1,2,4,5,6,7,13,14)
Chapter 6 (pp. 122-123; 1,2,4,8-15)

Ron Chernow, Alexander Hamilton, 2004, Ch.18 "Of Avarice and Enterprise"

- * Objective Examination WEEK 6 (Contributes 25%)
Chapter 7 (pp. 145-146; 1,3,4-6,8-13,15,16,18,19)

II. Refinements

The Structure of Interest Rates and Management of Financial Institutions

TEXT: Chapters 8 and 11-16

* Objective Examination WEEK 10 (Contributes 25%)

III. Current Issues and The Role of Monetary Policy

Introduction to Volatile Asset Prices, Risk management, and Money & Economic Activity

TEXT: Chapters 17-19 and Selected sections from Monetary Policy (Ch. 25-27)

-Final Objective Examination covers topics from Section II (Refinements) and Section III (Current Issues). Your analysis of Galbraith's A Short History of Financial Euphoria contributes 10 percent to the final exam. The final grade will be based on a weighted average of your performance on the three examinations with 25% each to exams #1 and #2, and 40 % to the final examination. Students will work on a team project which will contribute 10 percent to your final grade.

WEEK ENDING

- 09/10/04 The Nature and Significance of Financial Markets
- 09/17/04 Options of Borrowers and Lenders, The 1997 Asian Financial Crisis
- 09/24/04 Disintermediation, Operational & Allocative Efficiency
- 10/01/04 Flow of Funds, National Income Accounting
- 10/08/04 E-Commerce; the Real Sector and the Financial Sector
- 10/15/04 Principles of Money, Money & Capital Markets, Objective Examination #1 (Graduate students will take a more in-depth examination)
- 10/22/04 Market Makers, Arbitrage, U.S. Government Securities Markets
- 10/29/04 Government Securities Market (cont'd), Interest Rates and Bond Prices, Capital Investment Analysis (Net present value)
- 11/05/04 Interest Rates and Bond Prices (cont'd), Capital Investment Analysis (Payout Period)
- 11/12/04 Structure of Interest Rates, Objective Examination #2
- 11/19/04 Structure of Interest Rates (cont'd), Commercial Banking and other Financial Institutions
- 11/26/04 Financial Innovation
- 12/03/04 Federal Reserve and Monetary Policy

12/10/04 Risk Management; Derivative Products (Futures, Options and Swap Contracts)

Final Exam Week December 13-18, 2004