The Financial System is a collection of markets (money and capital), institutions, regulations, and techniques through which bonds, stocks, and other securities are traded, interest rates are determined, and financial services produced and delivered. The working (or lack of it thereof) of the financial system has a great impact on inflation, unemployment, economic growth and welfare, and balance of payment fluctuations.

The financial system is one of the most important inventions of modern society. Its primary task is to move scarce funds from those who save to those who borrow for consumption and investment. By making funds available for lending and borrowing (credit) the financial system provides the means whereby modern economies grow and increase the standard of living enjoyed by their citizens. What happens in the financial markets affects the quality of our lives every day in many ways.

The primary objective of this course is to provide a comprehensive introduction to the financial market instruments, debt and equity, their market and trading characteristics. The course covers the primary markets (investment banking and underwriting) and the secondary markets (organized exchange and over-the-counter OTC) for securities and provides an understanding of how short, intermediate, and long-term interest rate (one of the most important Macroeconomic variable) are determined. Subjects covered in this course correspond, partially, to the information needed to pass the General Securities Registered Representative Exam (commonly known as Series 7).

Text:

Students will receive PDF copies of several chapters of my manuscript -- with the working title of *An Introduction to Financial Markets: Stocks, Bonds, Forwards, Futures, and Options* -- which is in the process of completion. I will provide students with most of the relevant materials throughout the course, but they are also expected to learn more about the topics of discussion by conducting their own research on the World Wide Web, where enumerable amount of resources resides. Students can also use *Series 7, General Securities Representative*, (originally published by Dearborn Financial Publishing, Inc. but now appears under Kaplan Financial which acquired Dearborn in 2004) as reference.

Students interested in learning more about Futures and Options can benefit from

Colin A. Carter: *Futures and Options Markets, an Introduction*, published by RebelText, Davis, California, 2017
Requirements and Grading:

The course will involve:
1- Two examinations, midterm and final, worth 40% and 45% respectively.

2- A project requiring several presentations and a final report (see attached `Portfolio Project’), periodic homework, and informed class participation, 15%.

Students should carefully review the Policy on Academic Integrity stated in the 2017-2018 Student Handbook.

Topics Covered:

♣ Introduction

Late 1960’s and early 1970’s: The rising tide of global financial instability exacerbated by abandoning the Gold Standard.
Financial instruments and Risk Management: Forward and Futures

♣ Equity Securities

Forms of ownerships of firms
Corporations and their Funding
Process of Incorporation
Types of corporation
Preferred Stocks
Different Categories of Stocks
Different Values of Stock

♣ Stock Market Indices and their calculations

Price Weighted Index:
The Dow Jones Industrial, Transportation, Utility, and Composite Index
Market Capitalization Weighted Indexes
Standard and Poor’s 100 & 500, NASDAQ, Russel, and Wilshire

♣ Debt Securities

U.S. Government Securities
Federal Government Statuary and Discretionary spending
Sources of Federal Government Tax Revenue
Corporate Debt Securities
Money Market Securities and Interest Rates
Mathematics of interest rate and discounting: Simple and Compound interest, Future and Present Value and trading of short term money market instruments.
Financial Debt Instruments and their Yields
Municipal Securities (*only main features of Muni bonds will be covered*)

Fundamental Analysis: Financial ratios and Metrics based on Balance Sheet and Income Statement

Options (*This topic will be covered extensively*)

Customer Accounts

Margin Account (*This topic will be covered extensively*)

Issuing Securities (Investment Banking and Underwriting)

**Portfolio Project**

You will work as a team and will be collectively responsible for your project. As a team member, you must learn how to work together and devise an optimal or efficient division of tasks. You (your team) act as an account executive or a portfolio manager. You must establish clear communication channels and make decisions by consensus or the majority vote.

You are entrusted with $1,000,000 to invest. You are free to invest this money in any manner or fashion or combination of assets (stocks, bonds, options, and futures) you chose. Your selection will be, of course, evaluated by the "Real Return" on your portfolio that will be part of your final report. There is no geographic restriction, i.e. you can buy or sell assets in both domestic and international markets. There is no restriction in the number of trades, either. But, there is transaction cost. Transaction cost (fees and commissions) is a function of dollar value or amount of your trade. For uniformity, you must use the following table:

<table>
<thead>
<tr>
<th>Amount of Transaction</th>
<th>Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>less than $5000</td>
<td>$7</td>
</tr>
<tr>
<td>$5001 to $15000</td>
<td>$20</td>
</tr>
<tr>
<td>$15001 to $50000</td>
<td>$50</td>
</tr>
<tr>
<td>from $50001 for each additional $5000 add $2 to the cost.</td>
<td></td>
</tr>
</tbody>
</table>

Only investments in "No Load" mutual funds have no transaction cost.

You must justify your investments by providing information about and analysis of the underlying asset. Example of information needed for stock would be: full name of the company and its trading symbol, main line of business or product (industrial classification), size and capital structure, scope of operation and market, number of shares outstanding, the most recent P/E ratio, dividend history, recent share price movement, ....

MORE DETAIL ABOUT THE PROJECT LATER .....