We are in uncharted territory and whatever I write today (April 10, 2020) may not apply a week from now. The Covid-19 virus Pandemic is wreaking havoc on the US and global economy. Today weekly jobless claim posted, as usual by 8:30 AM EST, on the Labor department site shows an unprecedented 6.6 million people applying for unemployment benefits last week. The accumulated filing in the last 3 weeks is over 16 million! The Federal Reserve System, as the US central bank is called, money printing machines are working 24/7 to shore up the economy.

Many economic and financial analysts concede that at this point, predicting what would likely happen to the system are not much more than gussied-up guesses: The purposeful and sudden halt in economic activity has no precedent, and no one knows when the restrictions on movement and commerce will be lifted. Situation is incredibly fluid and things may change from day to day.

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 an 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(s) (one of the most important Macroeconomic variables)
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).

Given a significant role that the Federal Reserve played in the financial crisis of 2008 and is now playing in the current economic crisis, an understanding of the structure of the FED and tools at its disposal to conduct monetary policy – designed to rescue the economy-- is very important. For this reason, I decided to add a discussion of the structure and role of the FED, a topic more widely covered in Money and Banking courses.

**Text and Reading Materials:**

Students will receive, via Blackboard, PDF copies of seven 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 an innumerable amount of resources resides.

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


**Requirements and Grading:**

The course will involve:

1- Two examinations, midterm and final, each worth 40%.

2- A project requiring presentations and a final report (see attached `Portfolio Project'), periodic homework, 20%.

**Topics Covered:**

The course material will be packaged into five “modules”, one module for each week. Each module will contain several topics covered in related chapters or supporting documents. My hope is that we be able to cover a substantial portion of materials related to topics within each module, but given the uncertainty and fluidity of the situation, we may not be able to accomplish our maximum plan. The five modules are as follows:

**Module 1**

- Structure and functions of the Federal Reserve System
- Global Instability of 60s and 70s and the Genesis of Risk Management
  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**

### Module 2

- **Equity Securities**
  - Forms of ownerships of firms
  - Corporations and their Funding
  - Process of Incorporation
  - Types of corporations
  - 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

### Module 3

- **Debt Securities**
  - U.S. Government Securities
    - Federal Government Statutory 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)**

### Module 4

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

- **Options (The basic of Options will be covered)**
Module 5

♣ 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 choose. 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 a 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 AS We Move Thru the Term