



## Course information 2024-25

# FN1024 Principles of Banking and Finance

### General information

**MODULE LEVEL:** 4

**CREDIT:** 30

**NOTIONAL STUDY TIME:** 300 hours

**MODE:** Locally Taught and Independent Learner Route (not available for Online Taught students)

### Important

Please note that this course has been replaced by FN1202 Introduction to Finance in 2024/25. The last opportunity to be assessed in this course is 2023/24.

### Summary

This is designed as the foundation banking and finance course on which subsequent and more specialised finance courses are based.

### Conditions

Please refer to the relevant programme structure in the EMFSS Programme Regulations to check:

- where this course can be placed on your degree structure; and
- details of prerequisites and corequisites for this course.

You should also refer to the Exclusions list in the EMFSS Programme Regulations to check if any exclusions apply for this course.

### Aims and objectives

The specific aims of this course are to:

- Provide institutional features of financial systems.
- Identify key issues and problems arising in banking and finance.
- Introduce the key economic concepts required to analyse these key issues and problems.
- Illustrate how these economic principles can be applied to address the key issues identified.
- Show how the institutional features address the key issues identified.

## Learning outcomes

At the end of this course and having completed the essential reading and activities students should be able to:

- Discuss why financial systems exist, and how they are structured.
- Explain why the relative importance of financial intermediaries and financial markets is different around the world, and how bank-based systems differ from market-based systems.
- Understand why financial intermediaries exist and discuss the role of transaction costs and information asymmetry theories in providing an economic justification.
- Explain why banks need regulation and illustrate the key reasons for and against the regulation of banking systems.
- Discuss the main types of risks faced by banks, and use the main techniques employed by banks to manage their risks.
- Explain how to value real assets and financial assets and use the key capital budgeting techniques (Net Present Value and Internal Rate of Return).
- Explain how to value financial assets (bonds and stocks).
- Understand how risk affects the return of a risky asset, and hence how risk affects the value of the asset in equilibrium under the fundamental asset pricing paradigms (Capital Asset Pricing Model and Asset Pricing Theory).
- Discuss whether stock prices reflect all available information, and evaluate the empirical evidence on informational efficiency in financial markets.

## Employability skills

Below are the three most relevant employability skills that students acquire by undertaking this course which can be conveyed to future prospective employers:

1. Complex problem solving
2. Decision making
3. Digital skills

## Essential reading

For full details please refer to the reading list.

Mishkin, F. and S. Eakins Financial Markets and Institutions. (Pearson, 2018) ninth edition [ISBN 978-1292215006]

Allen, F. and D. Gale Comparing Financial Systems. (MIT Press, 2001) first edition [ISBN 978-0262511254]

Brealey, R.A. and S.C. Myers Principles of Corporate Finance. (McGraw-Hill/Irwin, 2019) thirteenth edition [ISBN 978-1260565553]

## Assessment

This course is assessed by a three-hour and fifteen-minute closed-book written examination.

# Syllabus

## Part 1 Financial Systems

- 1. Introduction to Financial Systems:** Role of financial systems (role of households, government, and firms in terms of savings and investments). Financial intermediaries, securities, and markets. Taxonomy of financial institutions. Nature of financial claims (debt versus equity, bonds, and notes, fixed and floating interest rates, common and preferred stocks). Structure of financial markets (direct and indirect finance, dealers and brokers, banks, mutual funds, pension funds, and insurance companies).
- 2. Comparative Financial Systems:** Bank-based systems against market-based systems. Legal aspects.

## Part 2 Financial intermediaries

- 3. Role of Financial Intermediation:** Nature and process of financial intermediation. Theories of financial intermediation (transformation of assets, uncertainty, reduction in transaction costs, reduction of problems arising out of asymmetric information). Implications of financial intermediation (Hirshleifer model, effect on economic development).
- 4. Regulation of Banks:** Regulation of banks (free banking, arguments for or against regulation, traditional regulation mechanisms, alternatives to traditional regulation).
- 5. Risk Management in Banking:** Market risks: Liquidity risk, interest rate risk, foreign exchange risk. Credit risk: Screening and monitoring, credit rationing, collateral.

## Part 3 Principles of finance

- 6. Financial Securities:** Risk and Return; Portfolio analysis: mean-variance portfolio theory. The portfolio selection process: the correlation of securities returns (single-index model and multi-index models). Asset pricing models: capital asset pricing models (CAPM) and arbitrage pricing model (APT).
- 7. Capital Budgeting:** Pricing of bonds and stocks. Net present value. Project appraisal.
- 8. Financial Markets:** Transmission of information; efficient markets. Theory and empirical evidence. Concepts of weak, semi-strong, and strong efficiency. Concepts of excess returns. Microstructures.