Introduction to Banking and Finance

Course Outline

**Course Code:** ECON-206

**Section:** A

**Credit Hours:** 3

**Class Timings:** 4 PM – 4:50 PM MWF, E-205

**Instructor Name:** Nazeef Ishtiaq

**Office:** E-218 (second cubicle on the left)

**Office Hours:** will be communicated at the beginning of semester

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**Course Description**

This is an introductory level course on the *financial system* and the role it plays in a modern economy. The modern financial system consists of two main components i.e. (i) *Financial Markets* and (ii) *Financial Organizations or Intermediaries*. This course involves an overview of both these components and their role in the growth and development of an economy. No economy can grow sustainably unless it has an efficient system for channelizing that economy’s surplus/saving towards its productive use. We would discuss how different components of the modern financial system work and what are their key features in this regard. The course would primarily focus on *capital market* (both *primary* and *secondary markets*), however there would be a brief overview of *money market* as well. We would also cover some of the topics which hold a great deal of importance for today’s world, such as *financial inclusion*, *financial crises* and the future of money and finance.

**Module 1 (Weeks 1-3)**

**What do we mean by the Financial System and why it exists in the first place?**

This module provides an overview of the modern financial system and the key role it plays in the economy. Some of the topics include:

* The role of surplus/savings in economic progress
* What kind of role does the financial system plays in channelizing the savings/surplus of an economy towards new productive avenues
* Difference between *financial markets* and *financial organizations/intermediaries*
* Meaning of *financial instruments* or *securities*
* Difference between *debt* and *equity*
* Difference between *Money Market* and *Capital Market*
* Difference between *primary* and *secondary markets*

***Readings***

* Frederic S. Mishkin and Stanley G. Eakins, *Financial Markets and Institutions*, Ninth Global Edition, Pearson, New York, 2018.

 Chapters 1 and 2.

* Lecture Notes

**Module 2 (Weeks 4-6)**

**Equity Finance and the Stock Market**

In this module we would discuss the concept of *equity finance* as well as its advantages and disadvantages compared to other modes of finance. The module also involves an overview of the Pakistan’s stock market and its performance. Some of the topics that would be discussed include:

* Overview of the equity finance and its importance
* Initial Public Offering (IPO)
* Difference between the Stock Market and Stock Exchange
* How share prices are determined and their importance for the firms
* Time Value of Money and the valuation of stock

 The concept of present value

 One-Period Valuation Model

 Generalized Dividend Model

* Overview of the Pakistan Stock Exchange (PSX)
* Stock Indices and their meaning; How the KSE-100 Index is calculated

***Readings and Resources***

* Frederic S. Mishkin and Stanley G. Eakins, *Financial Markets and Institutions*, Ninth Global Edition, Pearson, New York, 2018.

Chapter 13 (The Stock Market)

* For the concept of present value, read the following document:

<https://media.rff.org/documents/Discounting_Explainer_-_Final.pdf>

* Pakistan Stock Exchange:

<https://www.psx.com.pk>

* How the KSE-100 Index is calculated:

<https://www.psx.com.pk/psx/themes/psx/uploads/KSE_100_Index_New_Brochure.pdf>

**Module 3 (Weeks 7-8)**

**The Bond Market and the different types of Bonds**

This module involves the study of different types of bonds and bond markets. We’ll also discuss the primary and secondary bond markets and how prices of different bonds are determined. The importance of interest rates on bonds and how the risk and term structure of bonds affect them will also be discussed.

***Readings***

* Frederic S. Mishkin and Stanley G. Eakins, *Financial Markets and Institutions*, Ninth Global Edition, Pearson, New York, 2018.

Selected topics from chapters 3, 4 and 5

Chapter 12 (The Bond Market)

**Module 4 (Week 9)**

**The Foreign Exchange Market and International Financial System**

This module involves an introduction to the foreign exchange market. We’ll also discuss how the financial systems of different countries are inter-linked in the modern world, creating a world-wide system and set of institutions which we can refer to as the International Financial System.

***Readings***

* Frederic S. Mishkin and Stanley G. Eakins, *Financial Markets and Institutions*, Ninth Global Edition, Pearson, New York, 2018.

Selected topics from chapters 15 and 16.

**Module 5 (Weeks 10-11)**

**Financial Organizations and Intermediaries: How does the Banking System Operates and Different Types of Banks**

In this module we’ll focus on the modern banking system and the key role it plays in an economy. We’ll study the evolution of banks and their role in money creation. Different types of banks will also be discussed.

***Readings***

* Nektarios Michail, *Money, Credit and Crises: Understanding the Modern Banking System*, Palgrave Macmillan, Cham (Switzerland), 2021.

Chapter 1; Chapter 4 (optional)

* Barbara Casu, Claudia Girardone and Philip Molyneux, *Introduction to Banking*, third edition, Pearson, Harlow (England), 2022.

Selected topics from chapters 1, 2 and 3

* Dale K. Cline and Sandeep Mazumder, *Money, Banking and Financial Markets – A Modern Introduction to Macroeconomics*, Routledge, New York, 2022.

Chapter 4

**Module 6 (Week 12)**

**Financial Crises**

During the last 30-40 years, global economy has witnessed a peculiar development i.e. the size of the global financial sector is now larger than the size of the real economy. What’s the significance of this? If the purpose of the financial sector is to channelize funds towards the real economy, then how come its size is greater than the real economy? This fact, combined with the internationalization and integration of the global financial system, has resulted in an increased frequency and intensity of financial crises which have the potential to undermine economic development world over. In this module, we’ll briefly explore the reasons behind the financial crises and the lessons which could be learnt for the future.

***Readings and Resources***

* Frederic S. Mishkin and Stanley G. Eakins, *Financial Markets and Institutions*, Ninth Global Edition, Pearson, New York, 2018.

Chapter 8

* Other resources and documentaries will also be shared during this module

**Module 6 (Week 13)**

**Other Important Components of the Financial System and the Future of Finance**

In this module a brief introduction will be provided to some of the components of the financial system which were not discussed in other modules, e.g. money market, mortgages, insurance companies, mutual funds, investment banks, venture capital firms etc. We’ll also discuss the future of money and the financial system because this discussion is becoming increasingly important for economies world over after the rise of Digital Banking, E-Money, cashless transactions and cryptocurrencies.

***Readings and Resources***

* Handouts/web-articles (will be shared during the module)
* Dale K. Cline and Sandeep Mazumder, *Money, Banking and Financial Markets – A Modern Introduction to Macroeconomics*, Routledge, New York, 2022.

Chapter 12

* Nektarios Michail, *Money, Credit and Crises: Understanding the Modern Banking System*, Palgrave Macmillan, Cham (Switzerland), 2021.

Chapter 12

**Module 7 (Week 14)**

**Guest Lectures on Islamic Banking and Finance**

In this module we’ll introduce the ideas behind the Islamic Banking and Finance, a sector which has rapidly grown in Pakistan and many other countries during the last couple of decades. Through guest lectures and other resources, we’ll discuss the core ideas behind the Islamic Financial Sector and its key differences with the mainstream financial sector. We’ll also explore the reasons behind the rapid growth of this sector all over the world.

***Readings***

* Barbara Casu, Claudia Girardone and Philip Molyneux, *Introduction to Banking*, third edition, Pearson, Harlow (England), 2022.

Chapter 5

* Muhammad Imran Ashraf Usmani, *Islamic Finance: Meezan Bank’s Guide to Islamic Banking*, Maktaba Maariful Quran, Karachi, 2015.

Chapter 1

* Mohammad Obaidullah, *Islamic Financial Services*, Islamic Economics Research Center, King Abdulaziz University, Jeddah, 2005.

Chapter 1 (optional)

**Assessment and Grading**

Assessment will be based on a number of activities which include in-person exams, quizzes, assignments and a term paper. FCCU grading policy will be strictly adhered to (see the student handbook for details).

***Grading Distribution:***

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| **Activity** | **Weightage in Overall Grade** |
| Quizzes | 15 % |
| Assignments | 10 % |
| Midterm Exam | 25 % |
| Final Exam | 35 % |
| Term-Paper/Group-Project | 10 % |
| Attendance | 05 % |
| *Total* | *100 %* |

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