

**The University of Texas at Dallas
Jindal School of Management
Spring 2015**

**FIN 6325
Macroeconomics and Financial Markets**

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Course Description:

This course is designed to teach the structure and functions of the macro-economic and financial markets. We will use the recent subprime financial markets as the macro setting, and explore how and why the financial crisis has occurred in the financial market as well as how we can manage and avoid the risks in this crisis. The course consists of two parts:

In the first part, we will answer the question of how and why the financial crisis has occurred. We will take a close look at the key components of the macro-economic and financial market — the financial institutions to answer this question. The objective is to understand these institutions' functions in the financial markets and economy, their business models, their contributions to the onset of the crisis, and the economic forces behind these contributions. We will characterize the risks these institutions face and how the risks are associated with the crisis in the financial market. The financial institutions we will survey include commercial banks, investment banks, insurance companies, securities firms, mutual funds, hedge funds, and other finance companies.

In the second part, we will focus on analyzing and managing the risks in the macro financial markets. In particular, we will study interest rate risk, market risk and credit risk, among others. Our emphasis will be on the analytical models for measuring these risks and ways of managing these risks. If time permits, we will also discuss in more detail the corporate governance in financial markets and the current financial crisis.

This course involves knowledge of calculus, probability theory, and basic statistics (econometrics). Students are strongly advised to take related courses as prerequisites before taking this course.

Textbook & Course Portal:

Saunders, Anthony, and Marcia M. Cornett, *Financial Institutions Management: A Risk Management Approach*, 7th edition, McGraw-Hill/Irwin (Required)

The UTD eLearning portal will be the primary way of communication. Course materials and announcements will be posted on the portal.

Note: Please contact me for any questions using my school email address: Han.Xia@utdallas.edu, instead of using the “contact instructor” function in the course portal.

Requirement and Grading:

Your final grade will be the higher of the following two schemes:

Class participation 10%
Problem sets 10%
Mid-term Exam 25%
Group Project and Presentation 20%
Final Exam 35%

OR:

Class participation 10%
Problem sets 10%
Mid-term Exam 30%
Group Project and Presentation 10%
Final Exam 40%

The two schemes give students the flexibility to balance their skills. It also gives students the chance to make up their final grade if they didn't do well in the mid-term.

Class participation: You are expected to come to the class. Contributions to class discussions and question/answer sections will be rewarded. Distracting behavior in class, such as chatting, sleeping, cellphone ringing, etc. will be punished.

Problem Sets: There will be two problem sets, one before the midterm and one after. Problem sets will be distributed in class. You are reminded to submit your homework at the *beginning* of the class on the due date. If an assignment is turned in late, it will not be accepted and you will not receive a credit for your work. Solutions to assignments will be provided after the due date. The solutions to the end-of-chapter problems in the textbook will be available for self-learning. You are encouraged to go through the end-of-chapter problems.

Exams: There will be an in-class midterm exam and a final exam. Both exams are closed book and closed notes. Calculators approved by the Registration and Examinations Section of the University are allowed. Please notice that *no make-up test* will be given except for extreme situations. If you do not have a legitimate reason to miss an exam, you will be assigned a grade of zero for the test.

Group Project and Presentation: The group project involves developing a detailed presentation to analyze one significant event in the financial market during the subprime crisis of 2008-2009. More details and instructions about the project will be given after the Mid-term exam. The presentations of your

project will be in-class. Each team should prepare a presentation and a Q&A session following the presentation.

Honor code: You are reminded of University policy and regulations on honesty in academic work. You are expected to do your work in a manner consistent with the guidelines of the Honor System.

Tentative Course Outline:

The following schedule is a tentative outline of the course. More details will be updated as we proceed. Short review sessions for end-of-chapter assignment questions will be added to the second half of certain lectures.

Part I: Financial Markets and Financial Institutions in the Economy

Week 1: Overview of Financial Markets

Primary readings: Chapter 1

Week 2: Commercial Banks

Primary readings: Chapter 2, Handout “Monetary policy tools”

Week 3: Insurance Companies

Primary readings: Chapter 3, Handout “Financial statement analysis”

Supplementary readings: Chapter 6

Week 4: Investment Banks and Efficiency Financial Markets

Primary readings: Chapter 4

Problem Set 1

Week 5: Mortgage and Securitization Market

Primary readings: Chapter 26

Supplementary readings: Chapter 25

Problem set 1 due

Week 6: Mutual Funds and Hedge Funds

Primary readings: Chapter 5

Week 7: Mid-term Review Session

Week 8: Mid-term Exam

Part II: Measuring and Managing Risk in the Financial Markets

Week 9: Interest Rate Risk I

Primary readings: Chapter 7, Chapter 8

Week 10: Spring Break

Week 11: Interest Rate Risk II

Primary readings: Chapter 9

Week 12: Market Risk

Primary readings: Chapter 10

Week 13: Credit Risk and Credit Rating Agencies

Primary readings: Chapter 11

Supplementary readings: Chapter 12

Problem set 2

Week 14: Team presentation I

Problem set 2 due

Week 15: Team presentation II

Week 16: Course Review Session

Final Exam:

TBD

Note: the final exam date will be set by the school and cannot be changed. Students are only allowed to sit in the final exam designated to their own sessions.