

Academic Year: (2023 / 2024)

Review date: 11-10-2023

Department assigned to the subject: Business Administration Department

Coordinating teacher: TAPIA TORRES, MIGUEL ANGEL

Type: Compulsory ECTS Credits : 3.0

Year : 1 Semester : 1

REQUIREMENTS (SUBJECTS THAT ARE ASSUMED TO BE KNOWN)

Target Audience: This course is adequate for any student in the master (she could be an Economics, Engineering, Matematicians, Physics or from Business Administration bachelor).

Course Language: This course is totally taught in English.

No previous courses are necessary.

OBJECTIVES

GENERAL COMPETENCES:

Students will achieve the ability to answer new problems, using a large amount of information. They will learn how to work in unstable situations, being part of a team or individually. They will also promote their ability of leadership.

SPECIFIC COMPETENCES:

The aim of this course is to understand the main elements that make up a financial system, including the description of its institutions (European Central Bank), its markets (both monetary and capital) and its various types of assets and instruments.

Students will learn and understand:

1. The basic structure, characteristics and functions of a financial system,
2. Financial instruments and transactions, including stocks, bonds, deposits, derivatives, and mutual funds.
3. The role of law and regulation of the financial system and how it affects the normal functioning of all institutions, intermediaries and markets.
4. Interpret financial markets in terms of its architecture.
5. The role of active and passive management

In this way the students will understand the current state of financial systems including the role of financial institutions, central banks and the various regulators.

COURSE DESCRIPTION

The content of the program is divided into 8 sessions that cover the main aspects of the financial system. After an introductory track to financial markets the section deals with liquidity aspects. Also we will focus our attention to other financial markets such as Stock Exchanges, Derivatives, Fixed Income and interbank market. When it becomes necessary for each of the markets discussed above products traded and the form and procedure in which these products are created and then traded. Finally, we examine the role of European Central Bank, its monetary policy and regulatory bodies.

FACULTY:

-Mikel Tapia (Professor, UC3M)

-Jorge Yzaguirre (PhD, BME)

DESCRIPTION OF CONTENTS: PROGRAMME

Program

Session 1: Financial Markets and Instruments: An Introduction I.

Introduction and structure: Instruments and Markets

How do financial markets work?

Types of Markets

Session 2: Financial Markets and Instruments: An Introduction II.

Transparency: anonymity

Competition between Financial Markets

Fragmentation

Algo and Ultra High Frequency Traders

Session 3: Liquidity

Liquidity: basic concepts

Some results: intra and interday regularities

Which are the main drivers of Quoted or Effective Spreads?

Two approaches to Liquidity

First Approach, Martinez Rubio and Tapia (REA, 2004)

Second Approach: Næs and Skjeltorp (JFM, 2006)

Session 4: ECB, Monetary Policy and Interbank Market.

European Central Bank and the Eurosystem.

The ECB: Monetary Policy.

Quantitative easing (QE).

The Covid-19.

Interbank Market

Repo Market

Fixed Income Securities

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The ECB: Monetary Policy.

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Interbank Market

Repo Market

Fixed Income Securities

Session 5 & 6: Capital Structure

Modigliani Miller Propositions

Existence of Corporate Taxes

Financial Distress

Session 7: Derivatives

Introduction

Options Instruments and Pricing of Options

Futures Instruments and Pricing of Futures

The Market

Session 8 & 9: Electronic Markets and indexing.

Introduction to indexing

Active and passive portfolio management

Cash and futures index arbitrage

Session 10: Exchange Traded Funds

Mutual Funds versus Exchange Traded Funds

Role of ETF

Interactions between cash, futures and ETFs

LEARNING ACTIVITIES AND METHODOLOGY

Students will work in teams, learning to collaborate and organize the information. The professor will present the main theoretical concepts before the students do the assignments. All the sessions have a practical issue to solve by the teams.

1. Assignment 1

Each team should prepare a power point presentation (ppt) of a financial market. In the presentation, the students should provide useful information about the type of market, trading hours, type of orders, last years volume or liquidity, etc.

2. Assignment 2

Using data from real markets, each team must calculate some liquidity variables and compare their results with those explained in class.

3. Assignment 3.

Using NASDAQ data, each team should create portfolios and compare the results with those explained in class.

4. Presentation of Assignment 1

Presentation will evaluate team ability to communicate the main idea of the presentation and to link all concepts and ideas, their ability to answer properly the questions done by the professor and the rest of the class after/during presentation, team members ability to maintain eye contact with audience, seldom returning to notes and finally team ability to identify and accurately explain/use the relevant key concepts.

ASSESSMENT SYSTEM

% end-of-term-examination:	50
% of continuous assessment (assignments, laboratory, practicals...):	50

Assessment (continued) is based on the following criteria:

1. Assignment 1: 10%

2. Assignment 2: 10%

3. Assignment 3: 10%

4. Presentation of Assignment 1: 20%. Presentation will evaluate

Team ability to communicate the main idea of the presentation and to link all concepts and ideas, their ability to answer properly the questions done by the the professor and the rest of the class after/during presentation, team members ability to maintain eye contact with audience, seldom returning to notes and finally team ability to identify and accurately explain/use the relevant key concepts.

5. Exam: 50%. Which assessed the knowledge acquired by students. Exam minimum grade to pass the subject is 4 over 10. The exam will be a closed book one with calculator.

Students that do not meet the minimum passing grade should retake the subject. If the resit is taken, the above grade criteria also apply

BASIC BIBLIOGRAPHY

- Larry Harris Trading and Exchanges: Market Microstructure for Practitioners, Oxford University Press, 2003

- Mikel Tapia Course Slides, --, 2023

- Stephen Ross, Randolph Westerfield, Jeffrey Jaffe & Bradford Jordan. Corporate Finance. 12th Edition, MacGrawHill.

- Stephen Valdez, Philip Molyneux An Introduction to Global Financial Markets, Palgrave Macmillan. ISBN 9781137007520, 2012