

## **Financial Markets and Institutions**

**Professors:** Enrique Benito and Eudald Canadell

**E-mail:** [enrique.b.ruiz@gmail.com](mailto:enrique.b.ruiz@gmail.com); [eudald.canadell@gmail.com](mailto:eudald.canadell@gmail.com)

**Office hours:** by appointment

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### **Course Description**

We live in unprecedented times. Interest rates are the lowest ever seen and the financial response to the pandemic by central banks and governments alike has been extraordinary. Stock market indices have marked new highs despite doubts about the economic recovery. The important role of the banking sector in supporting households and firms was made clear at a time where most banks struggle to be profitable and are being forced to cut costs and accelerate their digital transformation.

In this course, we essentially try to understand how different players in the financial system interact with each other, which assets are traded in the financial markets, how interest rates are determined, and how financial services are delivered to meet investment and financing needs. In a nutshell, we try to make sense of the functioning of the financial system, always in the context of the current exceptional financial developments highlighted above.

The course develops as follows. We first provide an overview of financial markets and participating agents such as banks and other financial institutions, followed by a discussion of basic concepts such as the time value of money and interest rates.

We should then study in detail the main markets and their corresponding securities from short-term claims (traded in money markets) to longer dated claims such as bonds and stocks (traded in capital markets). We will also analyse how monetary policy is implemented by central banks around the world and their influence in interest rates and market prices. We then consider foreign exchange markets and more specialised instruments such as asset-backed securities and their key risks.

The key operations of different institutions such as retail and commercial banks, broker-dealers, mutual funds and hedge funds are presented and discussed throughout the course.

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The last part of the course will be devoted to Financial Markets Regulation. It will consider, first and briefly, the economic principles underlying the regulation and supervision of the financial sector and its evolution over time, in particular, those elements of financial markets supervision that set it aside from other regulated sectors in the economy, and which are directly associated with the crucial role of the financial sector.

It will then review the different pillars of financial sector regulation: prudential, conduct of business rules, markets infra-structure, corporate governance, and financial stability, and their different translation into the regulation and supervision of different pieces of the financial markets structure, namely banking, securities and financial products, derivatives, equity markets and collective investment schemes. Finally, it will explore the transition from microprudential to macroprudential regulation and the interrelations between macroeconomic policy and financial stability from the regulatory perspective.

### Methodology

There are 10 three-hour sessions distributed over ten weeks. Lectures are aimed at being interactive and participative and develop the concepts and methodologies that make up the different items of the course list.

The course sessions are based on the set of slides that supports the course. Other topics that are not covered in the references will also be discussed and a reference to alternative material and relevant press articles will be provided. The references and slides will be the fundamental support for personal review after the lectures.

Case studies will be discussed, and they will need to be prepared and completed in small teams and handed in prior to the time when they will be discussed. Discussions relating to each case study will be introduced and led by a designated team. All the team members will receive the same score based on the case completion, the quality of their presentation and the discussion generated in the classroom.

Participation in the discussions and in the lectures more generally will be evaluated individually and is essential to achieve the learning objectives of the course.

### Evaluation Criteria

To pass, the student should get at least 50 points out of 100, according to the following distribution:

- Final paper: 50 points (must get at least 25 to pass the course).
- Case studies completion and moderation: 30 points.
- Attendance and active participation in the lectures and case study discussions: 20 points.

Students are required to attend 80% of classes. Failing to do so without justified reason will imply a Zero grade in the participation/attendance evaluation item and may lead to suspension from the program

Students who fail the course during the regular evaluation are allowed ONE re-take of the evaluation, in the conditions specified above. If the course is again failed after the retake, the student will have to register again for the course the following year.

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In case of a justified no-show to an exam, the student must inform the corresponding faculty member and the director(s) of the program so that they study the possibility of rescheduling the exam (one possibility being during the “Retake” period). In the meantime, the student will get an “incomplete”, which will be replaced by the actual grade after the final exam is taken. The “incomplete” will not be reflected on the student’s Academic Transcript.

Plagiarism is to use another’s work and to present it as one’s own without acknowledging the sources in the correct way. All essays, reports or projects handed in by a student must be original work completed by the student. By enrolling at any UPF BSM Master of Science and signing the “Honor Code,” students acknowledge that they understand the schools’ policy on plagiarism and certify that all course assignments will be their own work, except where indicated by correct referencing. Failing to do so may result in automatic expulsion from the program.”

### Contents

Class	Subjects
1	Introduction to the course and preliminary concepts
2	Money markets and interest rates
3	Bonds, loans and Interest rate risk hedging
4	Secured funding and structured products
5	Central banking and monetary operations
6	Equity markets: overview, fundamental and technical analysis
7	Foreign exchange markets
8	Financial intermediaries

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9	Regulation: General Regulation: Banking
10	Regulation: Non-Bank Financial Intermediation Regulation: Financial Stability and Macprudential Policy

### Bibliography and reading materials

The main book that will serve as course reference is *"The Principles of Banking"* by Moorad Choudhry. The regulation section will be based mostly on literature and guidance issued by regulatory agencies.

A list of support readings will be provided to prepare the case studies and we will be referring to relevant press coverage, and news and events throughout the course.

### Bio of Professors

**Enrique Benito** is a Director with HSBC in London. His past experience spans consulting at a Big 4, where he advised commercial and investment banks on treasury, capital and funding matters, and roles at GE Capital Bank, the Central Bank of Spain and the former UK Financial Services Authority, now part of the Bank of England, where he was involved in the development and implementation of the Basel III framework.

Enrique holds a Ph.D in Economics from City, University of London and a Master's in Finance and Quantitative Methods from Universidad Carlos III de Madrid. He is a former Fellow at the University of Oxford's Saïd Business school and a member of the Global Association of Risk Professionals (GARP).

**Eudald Canadell** is presently Director of Research and Statistics at the CNMV (Comisión Nacional del Mercado de Valores). He has spent most of his career working in the international regulatory and financial markets field. Among other

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positions, Eudald was Secretary General of IOSCO, a position he held for four years. During his tenure IOSCO developed and approved, among other policies, the first Principles for the Regulation and Supervision of Securities Markets (1998), adopted subsequently by the IMF to assess the quality of regulatory and supervisory systems around the world.

Eudald has also served as a senior executive at financial markets and international financial companies, including the Financial Derivatives Exchange in Spain (MEFF), and Standard & Poor's Index Services, where he held the position of Managing Director for Europe during 6 years. Subsequently he was a senior vice-president at the consultancy Company Compass Lexecon, immediately.

Eudald holds a degree in Economics from the University of Barcelona and an M.Sc. in Economics from the University of Minnesota, where he focused on Financial Economics and Econometrics, and taught (T.A) Managerial Economics and Microeconomics. He has also completed advanced management courses at several business schools including the INSEAD (AMP 2008).