

**UNIVERSITY OF SOUTHERN CALIFORNIA
MARSHALL SCHOOL OF BUSINESS**

FBE 524
Fall 2005

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MONEY AND CAPITAL MARKETS

COURSE OVERVIEW

COURSE DESCRIPTION

This course provides an overview of the global financial system, introducing the important institutional players, describing and classifying financial markets where institutions and individuals operate, and developing an analytical framework to understand the determinants of prices and yields at which financial transactions occur. The course is roughly evenly split between institutional details concerning the organization of the contemporary financial system and the conceptual and analytical approaches used to understand past, current, and future developments in financial markets. The course provides an integrated analytical framework for understanding the effects of economic forces and economic policy on key financial market variables that determine the success of business strategies and present risks to firms or individuals from changes in interest rates, equity values, and exchange rates.

The course builds on foundations established in MBA or MBA.PM core courses (or equivalent training elsewhere) in the areas of economics and finance and draws on basic familiarity with accounting and statistics. The course will expand on students' personal familiarity with financial institutions and markets with the goal of placing their understanding in a broader and more comprehensive framework. The course will rely on many public data sources and will require close attention to current financial market events requiring that students be comfortable with quantitative concepts and simple mathematical relations.

PREREQUISITES AND CONCENTRATION CREDIT

This course requires only the MBA core sequence and draws particularly on material covered in GSBA 521ab or GSBA 548, GSBA 506ab or GSBA 524, GSBA 510, GSBA 511, and GSBA 526 or GSBA 544. The course is suitable for students concentrating in finance and non-finance students wishing to have a deeper understanding of financial market developments than is provided in required core courses. For finance students, FBE 524 provides credit for both the *General Financial Management* and the *Investments and Financial Markets* concentrations.

EDUCATIONAL OBJECTIVE

The objective of this course is to make a wide range financial market events comprehensible within an integrated framework. Students at the conclusion of this course will have a sophisticated understanding of current financial market developments as well an ability to place current events into both an historical context and to anticipate likely future developments.

CAREER FOCUS

This course is directed at preparing students who will be dealing with financial markets either as finance practitioners or in firms sensitive to financial market events. The course develops an understanding of the forces shaping financial institutions and markets. The vocabulary and analytical structures learned in this course will be useful in persuasively arguing a position as part of making business investment or strategic decisions. The course will be extremely useful for finance students considering careers in commercial or investment banking, real estate, investment management, or managing small or start-up firms. The course will likewise be very useful for non-finance students needing general background in the functioning of financial markets because of their importance to the success of business strategies. The course is also useful for students pursuing marketing or consulting careers in the financial services industry. Finally, the course will be helpful in shaping personal financial plans.

REQUIRED AND RECOMMENDED READINGS

The textbook for this course is *Money and Capital Markets: Financial Institutions and Instruments in a Global Marketplace* (9th Edition), by Peter S. Rose and Milton H. Marquis, Irwin-McGraw Hill, 2001. In addition, students will be asked to locate readings relevant to the currently class discussion from *trade publications* to assign to the class and lead a brief discussion of the reading and the publication. Daily reading of the *Wall Street Journal* is also highly recommended and articles of particular interest to this class will be announced and distributed through the class website and through Microsoft exchange on the Marshall School server. Finally, additional required or recommended readings are found at <http://marshallinside.usc.edu/dietrich> (the class website).

TEACHING PHILOSOPHY

My purpose is to go beyond the textbook in lectures and class discussion. I will distribute for each class a list of learning objectives for the class that week via the class website and Microsoft exchange. The weekly objectives will also contain vocabulary for review and recommended readings from the *Wall Street Journal*. On the basis of these materials and other readings, I will combine lecture and discussion to review basic concepts presented in the text, integrate current financial market events into the course framework, and finally extend the analysis into areas which are the subject of study or debate stimulated by current research or developments. I firmly believe that learning is

only possible by doing, and will require a group project and expect classroom participation demonstrating an ability to apply course material to real-world problems.

GROUP PROJECT

Students must form groups of *three or four* students to work on a group project. A list of topics will be distributed in the third week of classes, but students are encouraged to choose a subject of personal interest or professional relevance subject to my approval. The main requirements of the group project are: (1) a clearly stated question, theoretical issue, or policy problem must be defined as the subject of analysis for the project; (2) an analytical statement (mathematical model or statistical implications) of the problem based on research or identified in the professional or trade publications must be presented such that a quantitative analysis of the issue can shed light on evaluation of the problem; and (3) financial market data must be analyzed to address the issues raised by the topic. The Xanadu coursepack contains a search engine that may be useful in research for this project, and other sources of information will be provided. The project must be submitted as a three to five-page paper emphasizing the group's finding with complete references and up to three pages of accompanying tables and graphs supporting conclusions. The group project is due on November 30 (Week 15) and each student must submit a confidential *peer evaluation form* in order to receive credit for the project.

GRADING

Course grading will be based on the following:

Class Participation	15%
Take-home midterm	20%
Group project	30%
Final examination	35%

Class participation will be based on students' ability to respond to cold-call questions (on a random basis) and volunteered answers with zero credit when a student is called upon and is absent. In addition, class participation will be based on the general quality of a student's identification of interesting trade publication articles and contribution to the class discussion and overall learning experience.

The group project will be graded on both completeness and reliability of data gathered for the project, the quality of the analysis, and clarity and persuasiveness of the written presentation. Individual team member's grade on the project may be adjusted according to individual team member's contribution as determined by a *peer evaluation form*.

OFFICE HOURS

Office hours are scheduled on Wednesday/Thursday from 3:30pm to 4:30pm. I will be available after class on Wednesday to answer questions or set up special appointments.

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**MONEY AND CAPITAL MARKETS
COURSE SYLLABUS**

Week 1 Financial System Overview: Markets and The Flow of Funds

August 24

Required Reading: Chapters 1 to 3 (in the text)

Week 2 Deposit-Taking Institutions (Banks and Thrifts)

August 31

Required Reading: Chapters 14 and 15

September 7 Class rescheduled to 9:00am to 12:00noon, Saturday, October 1

Week 3 Non-Bank Financial Institutions

September 14

Required Reading: Chapter 16

Week 4 Financial Institution Regulation

September 21

Required Reading: Chapter 4 and 17

Week 5 Interest Rates: Basic Determinants

September 28

Required Reading: Chapters 5 and 6

Week 6 The Term Structure of Interest Rates [Special Saturday class]

October 1 (Saturday, make-up session for September 7 class)

Required Reading: Chapter 7

Week 7 Modeling Interest Rate Changes

October 5

Required reading: Fama and Bliss (1987) and Black, Derman and Toy (1990)

Week 8 Risk Premia in Interest Rates

October 12

Required Reading: Chapter 8, and KMV, "A Model of Default Risk"

- Week 9** **Measuring and Managing Interest Rate Risk**
October 19 [*TAKE HOME MIDTERM EXAMINATION DUE*]
 Required Reading: Chapter 9
- Week 10** **The Money Market**
October 26
 Required Reading: Chapters 10 and 11
 Review contents of “Instruments of the Money Market” (on website)
- Week 11** **Money Market Instruments**
November 2
 Required Reading: Chapter 18
- Week 12** **Monetary Policy: Deliberation and Implementation**
November 9
 Required Reading: Chapters 12 and 13
- Week 13** **The Fixed-Income Market: Treasuries, Agencies and Tax-Exempts**
November 16
 Required Reading: Chapter 18
- Week 14** **The Fixed-Income Market: Corporate Debt and Equity Markets**
November 23
 Required Reading: Chapters 19 and 20
- Week 15** **The Fixed-Income Market: Consumer Debt**
November 30 [*GROUP PROJECT DUE*]
 Required Reading: Chapters 21 and 22
- December 7* **Final Examination 7:00 to 9:00pm**

Weekly Research and Discussion Assignment

Each student will research the *trade literature* relevant to the week’s discussion and find and download an article for the class to discuss briefly. The goal is to find out how industry professionals view the problems we are discussing and to expose students to the vast and fascinating trade literature routinely read by people working in finance. The weekly roster of research and discussion leaders will be determined at the beginning of the semester and I will guide students in their search.