THE UNIVERSITY OF THE WEST INDIES
DEPARTMENT OF ECONOMICS

ECON1007: ELEMENTS OF BANKING AND FINANCE
SEMESTER II, AY2011/12
Pre-requisite: CXC Math Grade I, II or III (Grade II Pre 1998) or O'Level Maths Grade C or ECON0001
Anti-requisite: None
Lecturer: Claremont Kirton
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Description
The principal objective of this course is to introduce students to the basic concepts, theories and issues related to banking and finance. It introduces students to the established principles of bank and non-bank financial management, as well as to critical aspects of financial market operations. The course will explore these issues in a developing country context, with particular reference to the Caribbean. Students will be exposed to current monetary and financial information in order to improve their analytical skills, while simultaneously applying the concepts being presented.

Learning Outcomes
Specifically, at the end of the course students should be able to:

- Explain the role of the financial system and its importance to the economy and, identify the different fields of finance.
- Evaluate the link between the financial system and the real economy.
- Identify and explain the role and functions, as well as the operations of deposit-taking and non-deposit taking financial institutions.
- Explain the role and importance of interest rates in the economy.
- Explain the role of central banks and how they conduct monetary policy.
- Evaluate the importance of the money, debt, equity, mortgage and foreign exchange markets to the economy; identify and price the different types of instruments traded within them.
- Identify the different derivatives used by financial institutions and show how they can be used for risk management purposes.

Modes of Delivery
Two hours of lecture and one hour of tutorial each week.

Assessment
The final grade for the course will be made up of:

i. Two Graded Class Presentations each worth 10% 20%
ii. Mid-semester examination 30%
iii. Final Examination 50%

Syllabus
1 Introduction – ME 1, 2, 15
- Areas in finance
- Role of financial markets and institutions
- Market structures
- Financial institutions
- Risks faced
- Regulation of markets and institutions
2 Deposit Taking Institutions – ME 17, 18, 19, 20
  • Commercial banks
  • Building societies and credit unions
  • General principles of bank management
  • Off balance sheet activities
  • Measuring bank performance
  • Bank regulation

3. Non-deposit Taking Institutions – ME 21, 22, 23
  • Mutual funds
    • Insurance companies
    • Pension funds
    • Investment banks and security dealers

4. Interest Rates and Market Efficiency – ME 3, 4, 5, 6
  • Measuring interest rates
    • Changes in interest rates
    • Risk structure of interest rates
    • Term structure of interest rates
    • Market efficiency

5. Central Banks and Monetary Policy – ME 7, 8
  • Central banks around the world
    • Role of the central bank
    • Structure and operation of the central bank
    • Goals of monetary policy
    • Tools of monetary policy

6. Money and Bond Markets – ME 9, 10
  • Purpose of money markets
    • Money market instruments
    • Purpose of capital markets
    • Types of bonds
    • Bond pricing

7. Stock and Mortgage Markets – ME 11, 12
  • Types of stock
    • Equity pricing
    • Types of mortgages
    • Characteristics of mortgages
    • Securitization of mortgages

8. Foreign Exchange Markets – ME 13, 14
  • Foreign exchange rates
    • Exchange rate regimes
    • Role of the IMF

- Managing credit risk
- Managing interest rate risk
- Use of futures and forwards
- Use of options and swaps

Resources

Prescribed Textbook:

Recommended Texts


Other Material:
News Articles, Papers and videos – From time to time, you will be referred to these other material.

Texas Instruments BAII Plus Financial Calculator – Not required but highly recommended

Additional Readings


Bonnick, Gladstone. Storm in a Teacup or Crisis in Jamaica’s Financial Sector. Caribbean Centre for Monetary Studies, Trinidad and Tobago, (1998)


