

THE UNIVERSITY OF THE WEST INDIES, MONA
**ECON3011: The Economics of Financial
Institutions**

Semester I, 2020-21

Lecturer: Jevon Henry

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Office Hours: Mondays 11 am-1pm; Tuesdays 11 am-12 noon; by appointment

Pre-requisite: **ECON2002 - Intermediate Macroeconomics I**

Course Scope

The primary goal of this Financial Institutions course is to help us achieve better understanding of what the institutions are that affect our financial system. The course will address the theory of operations within these institutions and have some application examples through the use of quantitative problems.

Course Description

The course examines: the nature and role of financial institutions in an economy; the economic and financial environment in which financial institutions operate; commercial banks (performance analysis, structure and regulation); selected areas in the management of commercial banks and non-bank financial intermediaries (liquidity measurement, lending policies, investment policies, capital management, asset management and liquidity management); and explores non-bank financial intermediaries (mutual funds, life and non-life insurance companies, pension funds, finance companies and investment companies, with a focus on their structures, roles and importance, sources and uses of funds). The course profiles the financial, operational and organizational characteristics of these major financial institutions and the financial environment within the Caribbean context, and the principles are juxtaposed with other international markets to facilitate a wholesome understanding of problems, opportunities for and impact on economic growth, development, and financial stability.

Course Objectives/ Learning Outcomes:

Upon successful completion of the course, students should be able to:

1. Understand the economic principles underlying the emergence, evolution and operation of financial institutions in general, and in small economies, such as the CARICOM countries;

2. Describe how financial institutions affect resource allocation and economic activity;
3. Understand the role and importance of informal finance in the Caribbean, as well as the development of informal financial institutions.
4. Understand a stylized financial institution's balance sheet and income statements, and evaluate its performance through the use of ratios and other indicators;
5. Recognize the importance of ratio analysis in comparative assessments as well as their limitations;
6. Assess the efficacy of the management of financial institutions
7. Explain the rationale behind financial institutions regulation, identify important regulatory entities and understand the regulatory environment in which financial institutions in the Caribbean operate.
8. Outline the structure and describe how insurance companies, pension funds and mutual funds operate
9. Evaluate the important objectives of brokers and dealers and all aforementioned financial institutions.

Modes of Delivery

- One lecture (2 hours) and one tutorial (1 hour) per week. Problem sets will be provided. ***Delivery will be online.***

Course Resources

Required/ Prescribed Text (RT)

- Mishkin, Frederic S. and Stanley G. Eakins (2012). ***Financial Markets and Institutions.*** Pearson Addison Wesley, Seventh Edition. **{Abbrev. Ref: M&E}**

Additional Resources: See section after course schedule – Articles & Supplementary Material

Course Assessment

The course will be assessed using the following methods:

- 1 Mid-Semester Exam - 50%
- 1 Final Exam - 50%

Course Schedule

Date		Topic	Readings
Week 1	Lecture 1A	<ul style="list-style-type: none"> ▪ COURSE OVERVIEW ▪ An Introduction to the Roles & Nature of Financial Institutions in the Economy: “Why Study Financial Markets and Institutions?” 	RT: M&E Chapter 1
Week 2	Lecture 1A cont'd	<ul style="list-style-type: none"> ▪ An Introduction to the Roles & Nature of Financial Institutions in the Economy: “Overview of Financial System” 	RT: M&E Chapter 2
Week 3	Lecture 1A cont'd	<ul style="list-style-type: none"> ▪ An Introduction to the Roles & Nature of Financial Institutions in the Economy: “Why Do Financial Institutions Exist?” 	RT: M&E Chapter 7 See articles & other supplementary materials
Week 4	Lecture 1B	<ul style="list-style-type: none"> ▪ Small Financial Systems 	See articles & other supplementary materials
	Lecture 2	<ul style="list-style-type: none"> ▪ The Caribbean Financial Sector: Assessing the Economic and Financial Environment in which FIs Operate 	
Week 5	Lecture 2 cont'd		
Week 6		MIDSEMESTER EXAM	
Week 7	Lecture 3	<ul style="list-style-type: none"> ▪ Informal Finance in the Caribbean: Informal financial institutions – structure, principal sources and uses of funds 	See articles & other supplementary materials
Week 8	Lecture 4	Analysing Financial Institutions' Performance, Structure & Management	RT: M&E Chapter 17
Week 9	Lecture 4 cont'd	Analysing Financial Institutions' Performance, Structure & Management	RT: M&E Chapter 17
Week 10	Lecture 5	<ul style="list-style-type: none"> ▪ Financial Regulation 	RT: M&E Chapter 18
Week 11	Lecture 6	<ul style="list-style-type: none"> ▪ Mutual Funds, Insurance Companies & Pension Funds 	RT: M&E Chapter 20 RT: M&E Chapter 21
Week 12	Lecture 7	<ul style="list-style-type: none"> ▪ Investment Banks, Security Brokers and Dealers, and Venture Capital Firms 	RT: M&E Chapter 22

Articles & Other Supplementary Material

Unit 1: An Introduction to the Roles & Nature of Financial Institutions in the Economy & Small Financial Systems

Readings:

(*Required)	Bossone, B., Honohan, P., & Long, M. F. (2002). Policy for small financial systems. <i>Financial Sector Policy for Developing Countries</i> , 95.
(*Required)	Scholtens, B., & Van Wensveen, D. (2003). The theory of financial intermediation: an essay on what it does (not) explain (No. 2003/1). SUERF Studies.

Unit 3: Informal Finance in the Caribbean: Informal financial institutions – structure, principal sources and uses of funds

Readings:

(*Required)	C. Kirton, "Rotating Savings and Credit Associations in Jamaica: Some Empirical findings on Partner", <i>SES</i> , Vol. 45, Nos. 2 & 3, December, 1996.
	Prabhu, G. (1992). Informal Finance: Some Findings from Asia.
	S.Handa and C.Kirton, "Testing the Economic Theory of Rotating Savings and Credit Associations: Evidence from the Jamaican `Partner'", ISER, UWI, Working Paper No. 44, 1999.
	Handa, S., & Kirton, C. (1999). The economics of rotating savings and credit associations: evidence from the Jamaican Partner'. <i>Journal of development Economics</i> , 60(1), 173-194.
	https://www.gdrc.org/icm/formal-informal.html

Unit 5: The Regulation of Financial Institutions

Readings:

<i>Add. Readings</i>	<p>1. <i>Derisking Threatens Caribbean Banking Sector and Trade</i> https://www.fomin.org/en-us/Home/News/article-details/ArtMID/18973/ArticleID/11012/Derisking-Threatens-Caribbean-Banking-Sector-and-Trade.aspx</p>
	<p>2. <i>IMF Financial Soundness Indicators</i> https://www.imf.org/external/np/sta/fsi/eng/fsi.htm</p>