

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

**Semester I, 2021-22**

Lecturer: Jevon Henry

Email: jevon.henry@uwimona.edu.jm; jev\_56@hotmail.com

Office Hours: Mondays 11 am – 12 noon; Wednesdays 10 am – 11 am; 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

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

## Articles & Other Supplementary Material

### An Introduction to the Roles & Nature of Financial Institutions in the Economy & Small Financial Systems

Readings:

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

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

Readings:

<b>(*Required)</b>	C. Kirton, "Rotating Savings and Credit Associations in Jamaica: Some Empirical findings on Partner", <b>SES</b> , 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.
	<a href="https://www.gdrc.org/icm/formal-informal.html">https://www.gdrc.org/icm/formal-informal.html</a>

### The Regulation of Financial Institutions

Readings:

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