Finance 312
Money, Banking and Financial Markets
Key Concepts (Unit I)

(By the end of Unit I, you should know/be able to:)

Financial Markets –
What is the primary function of financial markets?
Who are the major participants in financial markets?
Distinction between debt markets and equity markets?

Distinguish between money markets and capital markets –what instruments/types of instruments are traded in each?

Distinguish between primary and secondary markets – what types of instruments are traded in each? Examples of each?

Distinguish between "exchanges" and "over-the-counter" markets – know examples of each

Financial Intermediation/Disintermediation
the process of each (direct/indirect finance)
forces causing/leading to each
advantages/disadvantages of direct/indirect finance

Asymmetric Information
Adverse selection – characteristics, examples
Moral hazard – characteristics, examples

Financial Intermediaries – know the major types/categories of financial intermediaries. How/where does each get its funds? Uses of funds?

Present Value Concepts/Problems – know what "present value" represents, why it is necessary to discount future dollar amounts for present value. Know the key variables determining the present value of any future dollar amounts. Be able to calculate present value of future payments—whether single payments, streams of payments, or combination. (e.g., calculate value of bond—paying interest either annually, semi-annually, or quarterly); value of zero-coupon; strips; lottery annuities, etc.)

Distinction between "interest rate" and return

Relationship between interest rates and bond prices

Relationship between current yield and yield to maturity
(How is each calculated?)

Under what circumstances would an outstanding (second-hand, used) bond sell for more (in the secondary market) than when it was initially sold? Will a bond ever sell for more than its face value? Explain!

What is a coupon rate? Does it change over the life of a bond? Explain!

Distinction between *nominal* and *real* values

Distinction between default risk and interest rate risk (What is the relationship between interest rate risk and reinvestment risk?**)**

What is an "indexed bond" – TIPS ??

What is a basis point?

Asset Demand/Portfolio Choice Theory

Determinants of demand for financial asset
(Nature of relationship between each variable and quantity of asset A demanded)

Interest rate determination using loanable funds framework – factors that affect demand for, supply of bonds, and effect on bond prices/interest rates. Be able analyze effects of different "givens" on market interest rates.

What is meant by the phrase "term structure" of interest rates? What is a "normal" yield curve? an "inverted" yield curve?

How does each of the leading theories of term structure explain yield patterns? Know the underlying assumptions and/or implications of each.