

# **BNK 201: Financial Institutions and Markets**

*Credits: 3*

*Lecture Hours: 48*

## **Course Objective**

This course aims to familiarize the students with the basics of financial institutions and markets with special focus on Nepalese financial environment. It also aims at to familiarize them with concepts, theories and tools to financial markets and financial institutions, and develop the skill to determine the market interest rates, yield to different instrument of money market and capital markets, and analyze financial performance of commercial banks.

## **Course Description**

This course deals with fundamental aspects of financial institutions and markets. This course covers the overview of financial markets and institutions, determinants of interest rates, the central bank and monetary policy, money markets, capital markets, commercial banks and other lending institutions, insurance companies, securities firms, investment banks and mutual funds, and pension funds.

## **Course Details**

### **Unit 1: Introduction**

**LH 4**

Overview of financial markets: primary markets versus secondary markets, money markets versus capital markets, foreign exchange markets, and derivative security markets; and Overview of financial institutions: types of financial institutions, unique economic functions performed by financial institutions.

### **Unit 2: Determinants of Interest Rates**

**LH 4**

The loanable funds theory—supply of loanable funds, demand for loanable funds, and equilibrium interest rate; Determinants of interest rates for individual securities; Term structure of interest rate; and Interest rate structure in Nepal.

### **Unit 3: The Central Bank and Monetary Policy**

**LH 5**

The central bank and its purposes; Monetary policy tools: open market operations, the discount rate, and reserve requirements; and Nepal Rastra Bank and monetary policy of Nepal.

### **Unit 4: Money Markets**

**LH 5**

Yields on money market securities: effective annual return, discount yields, single payment yields and bond equivalent yield; Money markets securities: Treasury bills, repurchase agreement, commercial paper, negotiable certificate of deposits and banker's acceptances; Money market participants; and Issues in money markets in Nepal.

### **Unit 5: Capital Markets**

**LH 6**

Capital market securities: Treasury notes and bonds, municipal bonds, corporate bonds, mortgaged backed securities and common stock; Participants of capital markets; Yield on capital markets securities; International aspects of capital markets; and Issues in capital markets in Nepal.

**Unit 6: Commercial Banks and Other Lending Institutions****LH 12**

Definition of commercial bank; Financial statements, and off-balance sheet assets and liabilities; Financial statement analysis using a return on equity framework; Regulation of commercial banks: types of regulations and the regulators, liquidity regulation, capital adequacy regulation, and off-balance sheet regulation; Saving associations; Saving banks; Credit unions; Finance companies; Development bank; and Micro-credit development banks; Classification and regulation of financial institutions in Nepal.

**Unit 7: Insurance Companies****LH 5**

Categories of insurance companies; Life insurance: types, the fair value of an annuity policy, and asset and liability structure; Property-casualty insurance companies: types, asset and liability structure, and profitability; Overview of insurance industry in Nepal; and Regulation and supervision mechanism in Nepal.

**Unit 8: Securities Firms, Investment Banks, and Mutual Funds****LH 4**

Securities firm and investment bank activity areas; Asset and liability structure of securities firms and investment banks; Mutual funds: concept, types, NAV and fund operating expenses

**Unit 9: Pension Funds****LH 3**

Concept of pension funds; Types of pension plans – defined-benefit plan, defined-contribution plan, and calculation of retirement benefits under defined benefit plan and defined contribution plan; and Pension fund management practices in Nepal.

**Basic Texts**

Saunders, A. & Cornett, M. M., *Financial markets and institutions*. New York: McGraw Hill Irwin.

**Reference Books**

Fabozzi, F. J., Modigliani, F., Jones, F. J., & Ferri, M., *Foundations of financial markets and institutions*, New Delhi: Dorling Kindersley (India) Pvt. Ltd.

Kohn, M., *Financial institutions and markets*, New Delhi: Oxford University Press India.

Madura, J., *Financial institutions and markets*, New Delhi: Cengage Learning India Private Limited.

Klob, R. & Rodriguez, R. J., *Financial institutions & markets*, Cambridge: Blackwell Publishers Inc.

Mishkin, F. S. & Eakins, S. G., *Financial markets & institutions*, New Delhi: Dorling Kindersley (India) Pvt. Ltd.

Shrestha, M. K. & Bhandari, D. B., *Financial markets and institutions*. Kathmandu: Asmita Books Publishers & Distributors (P) Ltd.