22E MONEY AND FINANCIAL MARKETS

Course Description

This course exposes students to the theory and functioning of the monetary and financial sectors of the economy. It highlights the organization, structure and role of financial markets and institutions. It also discusses interest rates, monetary management and instruments of monetary control. Financial and banking sector reforms and monetary policy with special reference to India are also covered.

Course Outline

1. Money

Concept, functions, measurement; theories of money supply determination.

2. Financial Institutions, Markets, Instruments and Financial Innovations

- a. Role of financial markets and institutions; problem of asymmetric information adverse selection and moral hazard; financial crises.
- b. Money and capital markets: organization, structure and reforms in India; role of financial derivatives and other innovations.

3. Interest Rates

Determination; sources of interest rate differentials; theories of term structure of interest rates; interest rates in India.

4. Banking System

- a. Balance sheet and portfolio management.
- b. Indian banking system: Changing role and structure; banking sector reforms.

5. Central Banking and Monetary Policy

Functions, balance sheet; goals, targets, indicators and instruments of monetary control; monetary management in an open economy; current monetary policy of India.

Readings

- 1. F. S. Mishkin and S. G. Eakins, *Financial Markets and Institutions*, Pearson Education, 6th edition, 2009.
- 2. F. J. Fabozzi, F. Modigliani, F. J. Jones, M. G. Ferri, *Foundations of Financial Markets and Institutions*, Pearson Education, 3rd edition, 2009.
- 3. M. R. Baye and D. W. Jansen, Money, Banking and Financial Markets, AITBS, 1996.
- 4. Rakesh Mohan, *Growth with Financial Stability- Central Banking in an Emerging Market*, Oxford University Press, 2011.
- 5. L. M. Bhole and J. Mahukud, *Financial Institutions and Markets*, Tata McGraw Hill, 5th edition, 2011.

- 6. M. Y. Khan, *Indian Financial System*, Tata McGraw Hill, 7th edition, 2011.
- 7. N. Jadhav, Monetary Policy, Financial Stability and Central Banking in India, Macmillan, 2006.
- 8. R.B.I. Report of the Working Group: Money Supply Analytics and Methodology of Compilation, 1998.
- 9. R.B.I. Bulletin, Annual Report and Report on Currency and Finance (latest).

DEPARTMENT OF ECONOMICS DELHI SCHOOL OF ECONOMICS UNIVERSITY OF DELHI

Minutes of Meeting

Subject : B.A. (Hons.) Economics, Fifth Semester (2013)

Course: 24 – Money and Financial Markets **Date of Meeting:** Thursday 25th July, 2013, 2.00 P.M.

Venue: Department of Economics, Delhi School of Economics

University of Delhi, Delhi – 110 007

Chair: Prof. Pami Dua

Attended by:

- 1. Mukesh Kumar, Ramjas College
- 2. Abdul Rahim Ansari, Hindu College
- 3. Rachna Mathur, Shaheed Bhagat Singh College
- 4. Kamini Tandekar, Kamala Nehru College
- 5. Shweta Jain, St.Stephens College
- 6. Dr. Rituranjan, SRCC
- 7. Sonalika Sinha, DRC
- 8. Hema Kapur, Hansraj College
- 9. Manisha Vats, Miranda House
- 10. Deepika Srivastava, LSR
- 11. Ananya Smriti, LSR
- 12. Ujjayani Roy, LBC
- 13. Sangya Ranjan, Satyawati (E)
- 14. Gurdeep Kaur, Shivaji College
- 15. Anand Mittal, Hansraj College
- 16. Chitra Verma, KMC
- 17. Vaibhav Puri, SGGSCC
- 18. Jyotsna Maken, SGGSCC
- 19. Pemala Lama, Venkateswara College
- 20. Mamta Datt, Shivaji College

A Sub-Committee of the following teachers was formed

- 1. Ms. Manisha Vats, Miranda House(Coordinator)
- 2. Dr. Anand Mittal, Hans Raj College
- 3. Dr. Rituranjan, Shri Ram College of Commerce
- 4. Mr. Abdul Rahim Ansari, Hindu College
- 5. Ms.Rachna Mathur, Shaheed Bhagat Singh College
- 6. Hema Kapur, Hansraj College

For the 100 marks paper, there would be

- 75 marks : University Exam
- 25 marks: Internal Assessment (5 marks are for attendance and 20 marks for two class tests of 10 marks each)

It was decided that for the Semester examination there would be an open choice to attempt any 5 questions out of 8.

The following suggestions were made for the Topic wise Reading List:

TOPIC 1

MONEY: Concept, Functions, Measurement, Theories of Money Supply Determination

1. Baye and Jansen Chapter 1 pp (2-27);

Chapter 14

2. N Jadhav Chapter 2 Section 2.1, pp (18 –25);

Section 2.3 pp (37-47); Annexure 2.1

3. RBI Report Money Supply Analytics and Methodology

of Compilation 1998 Chapter 2 pp (11-17)

TOPIC 2

<u>FINANCIAL INSTITUTIONS, MARKETS, INSTRUMENTS AND</u> FINANCIAL INNOVATIONS:

<u>a) Role of Financial Markets and Institutions; problems of asymmetric information</u> – adverse selection and moral hazard, financial crisis

1. Mishkin & Eakins Chapter 15 pp (369-396)

2. M Y Khan Chapter 1

3. Fabozzi et al. Chapter 1 & 2

4.. Baye and Jansen Chapter 5 pp (153-161)

b) Money and Capital Markets; Organization, Structure and Reforms in India; Role of Financial Derivatives and Other Innovations

1. M Y Khan Chapter 9 (9.13 -9.32)

2. Bhole Chapter 5 pp (137-147)

3.Fabozzi et al

Chapter26 pp (496 -504)

Chapter27 pp (517-529) Chapter30 pp (577 - 580)

TOPIC 3

INTEREST RATES: Determination, Sources of interest rates differentials, Theories of term structure of interest rates; interest rates in India

1. Baye & Jansen Chapter 8 pp (236 -251),

Chapter 9 Chapter 10

2. Annual Report of RBI Box III, pg 78, III.2 pg 79, III.3pg 80

2011-12

TOPIC 4

BANKING SYSTEM:

- a) Balance Sheet and Portfolio Management
- b) Indian Banking System. Changing Role and Structure, Banking Sector Reforms
- 1. M Y Khan Chapter 10 (10.45-10.48) Chapter 12 (12.56-12.57)
- 2. RBI Bulletin Oct 2012 Basel III in International and Indian Context

Article By D.Subbarao

TOPIC 5

CENTRAL BANKING AND MONETARY POLICY

Functions, Balance Sheet, Goals, Targets, Indicators and instruments of monetary control, monetary management in an open economy, current monetary policy of India

1. Baye & Jansen Chapter 19

2. M,Y khan Chapter 9 (9.1-9.13)

3. Jadhav Chapter 6.2 - 6.3 - except 6.3.1

Chapter 9.2 - 9.3 - except 9.3.7

Chapter 11.2 – 11.2.4

4. Annual Report of RBI

2011-12

Chapter 3

5. Rakesh Mohan Chapter 8 pp (271-276)

Readings:

- 1. F. S. Mishkin and S.G. Eakins, *Financial Markets and Institutions*, Pearson Education, 6th Edition, 2009.
- 2. F.J. Fabozzi, F. Modigliani, F. J. Jones, M.G. Ferri, *Foundations of Financial Markets and Institutions*, Pearson Education, 3rd Edition, 2009.
- 3. M. R. Baye and D. W. Jansen, *Money, Banking and Financial Markets*, AITBS, 1996.
- 4. Rakesh Mohan, *Growth with Financial Stability Central Banking in an Emerging Market*, Oxford University Press, 2011.
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