MN3116 – Financial Markets & Investments

Module Type/Semester: Junior Honours/Option (20 Credits)/Semester 2

Pre-requisite(s): MN3101

Module Co-ordinator: Dr Daniel Oto-Peralías

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 AIM: The investments industry has gone through some profound changes over the past decades, due in part to an abundance of newly designed securities, in part to the creation of innovative trading strategies, in part to concurrent advances in computer technology and in part to some turbulent events in the global financial markets. We have also witnessed the rapid transmission of theory to real-world practice in the financial industry. This module is designed to give students a broad appreciation of modern financial markets and a good grounding in theory and relevant valuation techniques for key financial instruments among major asset classes. The module will equip students with the skills that are essential to the practices of an investment professional or a sophisticated individual investor.

Method of Teaching & Learning:
• Lectures
• Seminars
• Independent study

Learning Outcomes:
By the end of the module, students should be able to:
• Have a good knowledge of the main features and functions of financial markets, and their institutional foundations.
• Understand the overall investment process and some key elements involved.
• Develop a thorough understanding of the various financial instruments available to potential investors.
• Understand the concept of risk aversion and how risk aversion affects allocation.
• Conceptualise the importance of diversification.
• Appreciate the importance of investment policy statement.
• Understand the principles of portfolio construction.
• Understand the role of asset allocation.
• Be familiar with the role of a security’s intrinsic value within the context of fundamental analysis.
• Develop a thorough understanding of the pricing, characteristics, and risk determinants of bonds.
• Describe the major theories of term structure and how term structure concepts apply to valuation of securities.
• Have a thorough understanding of duration and how to calculate it for various bond portfolios.
• Describe the basic characteristics of futures and option markets.
• Understand the mechanics of interest rate and currency swaps.
• Have a good knowledge of the process of asset securitization and its implications in the 2007-08 financial crisis.

INDICATIVE TOPIC OUTLINE:
Topic 1: Financial systems and economic activity.
Topic 2: Overview of investment environment.
Topic 3: Asset classes and financial instruments.
Topic 4: Security markets.
Topic 5: Risk, return and diversification.
Topic 6: Index models.
Topic 7: Investment policies and portfolio planning.
Topic 8: Security valuation.
Topic 9: Derivatives markets.
Topic 10: Introduction to futures markets.
Topic 11: Introduction to options markets.

ASSESSMENT:
• Individual Assignment (50%)
• Final Written Exam (50%)

CORE READING LIST:

Additional readings will be provided during the course.