

Financial Markets and Institutions

Professors: Enrique Benito and Eudald Canadell

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Office hours: by appointment

Course Description

In this course, we aim to understand how the different participants in the financial system interact, which assets are traded in financial markets, how interest rates are determined, and how financial services are delivered to meet investment and financing needs. In essence, we seek to make sense of the functioning and evolution of the financial system, with a strong emphasis on recent and ongoing developments — including post-GFC reforms, the low-then-high interest rate cycle, macroeconomic and geopolitical shifts, digital innovation in finance, and emerging risks to financial stability.

The course develops as follows. We begin with an overview of financial markets and the main participating agents — banks and non-bank financial institutions — followed by a discussion of foundational concepts such as the time value of money and interest rates.

We then study in detail the core markets and their corresponding securities, ranging from short-term instruments traded in money markets to longer-term securities such as bonds and equities traded in capital markets. We also analyse how monetary policy is implemented by central banks, and how this framework has evolved in recent years. We further explore foreign exchange markets and more specialised instruments such as repo and their key risks, with reference to both historical lessons and current market practice.

The key operations and business models of different institutions — including retail and commercial banks, investment banks, broker-dealers and hedge funds — are discussed throughout the course, as well as the growing role of non-bank financial intermediation and financial technology (FinTech) in reshaping market structure and access to financial services.

The final part of the course is devoted to Financial Markets Regulation. We first outline the economic principles that justify the regulation and supervision of the financial sector and how these have evolved over time, highlighting the specific features that distinguish financial regulation from that of other sectors of the economy.

We then review the main pillars of financial sector regulation: prudential frameworks, conduct-of-business rules, market infrastructure and transparency requirements, corporate governance, and the promotion of financial stability. We examine how these apply across the financial system — including banking, securities markets, derivatives,

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market infrastructure, and collective investment schemes — and the evolving role of non-bank financial institutions. Finally, we explore the shift from microprudential to macroprudential regulation, the lessons from recent crises, and the interaction between macroeconomic policy, technological innovation, and financial stability from a regulatory perspective.

Methodology

There are 10 three-hour sessions distributed over ten weeks. Lectures are aimed at being interactive and participative and develop the concepts and methodologies that make up the different items of the course list.

The course sessions are based on the set of slides that supports the course. Other topics that are not covered in the references will also be discussed and a reference to alternative material and relevant press articles will be provided. The references and slides will be the fundamental support for personal review after the lectures.

Case studies will be discussed, and they will need to be prepared and completed in small teams and handed in prior to the time when they will be discussed. Discussions relating to each case study will be introduced and led by a designated team. All the team members will receive the same score based on the case completion, the quality of their presentation and the discussion generated in the classroom.

Participation in the discussions and in the lectures more generally will be evaluated individually and is essential to achieve the learning objectives of the course.

Evaluation Criteria

To pass, the student should get at least 50 points out of 100, according to the following distribution:

- Final paper: 50 points (must get at least 25 to pass the course).
- Case studies completion and moderation: 30 points.
- Attendance and active participation in the lectures and case study discussions: 20 points.

Students are required to attend 80% of classes. Failing to do so without justified reason will imply a nil grade in the participation/attendance evaluation item and may lead to suspension from the program.

Students who fail the course during the regular evaluation are allowed ONE re-take of the evaluation, in the conditions specified above. If the course is again failed after the retake, the student will have to register again for the course the following year.

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In case of a justified no-show to an exam, the student must inform the corresponding faculty member and the director(s) of the program so that they study the possibility of rescheduling the exam (one possibility being during the “Retake” period). In the meantime, the student will get an “incomplete”, which will be replaced by the actual grade after the final exam is taken. The “incomplete” will not be reflected on the student’s Academic Transcript.

Plagiarism is to use another’s work and to present it as one’s own without acknowledging the sources in the correct way. All essays, reports or projects handed in by a student must be original work completed by the student. By enrolling at any UPF BSM Master of Science and signing the “Honor Code,” students acknowledge that they understand the schools’ policy on plagiarism and certify that all course assignments will be their own work, except where indicated by correct referencing. Failing to do so may result in automatic expulsion from the program.”

Contents

Subjects
Financial markets and financial intermediaries
Money markets
Bond markets
Equity markets
Secure funding: repo and securitisations
The Yield curve
Interest rate risk management and hedging
Central banking and monetary operations
Foreign exchange
Regulation I
Regulation II

Bibliography and reading materials

The course slides cover all the key concepts and building blocks. The regulation section will be based mostly on literature and guidance issued by regulatory agencies.

A list of support readings will be provided to prepare the case studies and we will be referring to relevant press coverage, and news and events throughout the course.

Bio of Professors

Enrique Benito is a Director with HSBC in London. His past experience spans consulting at a Big 4, where he advised commercial and investment banks on treasury, capital and funding matters, and roles at GE Capital Bank, the Central Bank of Spain and the former UK Financial Services Authority, now part of the Bank of England, where he was involved in the development and implementation of the Basel III framework.

Enrique holds a Ph.D in Economics from City, University of London and a Master's in Finance and Quantitative Methods from Universidad Carlos III de Madrid. He is a former Fellow at the University of Oxford's Saïd Business school and a member of the Global Association of Risk Professionals (GARP).

Eudald Canadell is presently Director of Research and Statistics at the CNMV (Comisión Nacional del Mercado de Valores). He has spent most of his career working in the international regulatory and financial markets field. Among other positions, Eudald was Secretary General of IOSCO, a position he held for four years. During his tenure IOSCO developed and approved, among other policies, the first Principles for the Regulation and Supervision of Securities Markets (1998), adopted subsequently by the IMF to assess the quality of regulatory and supervisory systems around the world.

Eudald has also served as a senior executive at financial markets and international financial companies, including the Financial Derivatives Exchange in Spain (MEFF), and Standard & Poor's Index Services, where he held the position of Managing Director for Europe during 6 years. Subsequently he was a senior vice-president at the consultancy Company Compass Lexecon.

Eudald holds a degree in Economics from the University of Barcelona and an M.Sc. in Economics from the University of Minnesota, where he focused on Financial Economics and Econometrics, and taught (T.A) Managerial Economics and Microeconomics. He has also completed advanced management courses at several business schools including the INSEAD (AMP 2008).

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