

Semester VIII
ECODSC – 452
Financial Economics
Total Credits: 4
Teaching Hours: 45 hours

Course Description:

This course is designed to make the students familiar with the significance and scope of Financial Economics. The course incorporates component of financial system, instruments of financial market like money market and capital market and also deals with the primary and secondary market. In addition to these, the issues of financial asset and portfolio management are included. Further the course also highlights the regulatory of Financial Institutions like RBI, SEBI, NABARD and IRDA and their functions.

Course Outcomes:

By completing this course, students will gain a deep understanding of financial economics, covering financial markets, alternative financial instruments, investment objectives, and market analysis. They will learn to evaluate instruments based on risk, return, and liquidity, and distinguish between real and financial investments. Students will also develop expertise in analyzing the economic performance of stock exchanges and financial markets, enabling informed investment decisions. They will also identify the power of regulatory bodies of Financial Institutions to control India's financial market.

Unit 1: Introduction to Financial Economics

Definition and scope of financial economics - Importance of financial economics - Financial System, Components of a Financial System; Significance of Banking and Financial Institutions - structure of the Financial system - Financial innovations - Criterion to evaluate financial system-relationship between the Financial System and Economic Growth.

Unit 2: An Overview of the Financial System

Financial Markets – Function, Structure and role, Financial institutions and their importance; problem of asymmetric information - adverse selection and moral hazard; Money and Capital Markets, Money Market Instruments; Capital Market Instruments; Financial services-Non-banking Finance companies, Mutual funds – Microfinance institutions; Derivatives – Definition, origin, types (forwards, futures, options and swaps, Derivatives and Risk

Unit 3: Risk Structure and Term Structure of Interest Rates

Interest Rates and Rates of return, Determinants of Portfolio Choice, Market Interest Rates and the demand and Supply of Bonds, Risk Structure of Interest Rates-Liquidity and Information Costs, Term Structure of Interest Rates – Expectations Theory, Segmented Market Theory, Liquidity Premium Theory

Unit 4: Financial Assets and Portfolios Management

Definition and Types of financial assets (stocks, bonds, Debentures, commodities, Mutual funds, equity funds – Definition and objectives of Portfolio management; Portfolio theory and diversification, Challenges of Portfolio Management, Portfolio risk management in financial markets

Unit 5: Regulating Financial Institutions:

Regulating and promotional institutions in Indian Financial system – Reserve Bank of India-Organization and Management of RBI; powers and functions of RBI, Instruments of Credit

Control – Security and Exchange Board of India (SEBI) -Evolution and Objectives of SEBI, Powers and Functions of SEBI, NABARD-powers and functions. IRDA- duties, powers and functions

Suggested Readings:

1. Bharati Pathak (2015), 4th Edition Indian Financial System, Pearson India Education Services Pvt Ltd.
2. Eakins, Stanley G (2005) Financial Markets and Institutional (5thEdition) Addison Wesley
3. Mark Grinbalt, Sheridan Titman (2003), Financial Market and Corporate strategy TMH, New Delhi
4. L. M Bhole (2007), Financial Institutions and Markets, TMH New Delhi
5. Sriram Khanna (2004), Financial Market in India and protection of investors, New Century Publication.
6. Rupesh Roshan Singh, Indian Financial System, Excel Books Private Limited, New Delhi
7. Machiraju, Indian Financial System, Vikas publishing house, 2nd Edition, 2002