

Finances in the EU
<p>Course tutor Mariusz Trojak, PhD</p> <p>Education: 2004 Associate Professor in Economics – Jagiellonian University 1997 MA in Economics –Cracow University of Economics</p> <p>Academic interests : Systemic risk in financial market Banking regulation Financial integration Regional and local development More information available at: http://www.econ.uj.edu.pl/instytut/kadra-dydaktyczna/pracownicy-naukowo-dydaktyczni/mariusz-trojak</p>
<p>Description</p> <p>Main topics to be covered in the course: Theory of financial markets. Development of financial structures (Nordic versus Anglo-Saxon models). Valuation of financial instruments – both underlying and derivative ones. Efficient market hypothesis versus behavioural finance. “Financialisation” of European economies. Moral hazard and asymmetry of information. Too big to fail, too important to fail, too interconnected to fail. Consequences of the global financial crisis on European financial markets. Systemic risk measure and regulation. European Systemic Risk Board. Basel III regulation. European Banking Authority. Regulation of Credit Rating Agencies.</p>
<p>Type of course</p> <p>Mandatory/elective. Key course for EU Studies specialization. Specialty course for Central and Eastern European and Europeanisation and Governance in CEE specialization. Specialty course for the Studies in Holocaust and Totalitarian Systems.</p> <p>For CES students, this course is a part of the <i>Finance in the EU</i> course. The first part of the course was offered in the Autumn Semester (30 hours, 3 ECTS). For both courses students can receive 9 ECTS and 60 hours, which will fulfil the requirements of the programme MA in European Studies. Both parts will be treated as one course (<i>Finance in the EU</i>) only if they are taken during one academic year. Each of the two parts of the course (held in the Autumn and Spring semesters) will be assessed separately and the weighted average mark will be averaged out of the two final grades received from both parts of the course. The assessment of each part will be presented in the syllabus for each course.</p>
<p>ECTS number</p> <p>6 ECTS</p>
<p>Pre-requisites (if applicable)</p> <p>Basic knowledge of micro and macroeconomics (some statistics)</p>
<p>Intended Learning Outcomes</p> <p>Skills and competencies: understanding of mechanisms of financial markets and different financial systems – comparison of Nordic and Anglo-Saxon systems. Critical analysis of value determinants. Understanding of risk factors and micro and macro prudential regulation of financial institutions and markets. Knowledge of new institutional structure of financial regulation in Europe.</p> <p>The Student:</p> <p>EK 1: Has an advanced and well-ordered scope of knowledge on the relations between the various sub-disciplines of European Studies (law, political science, economics, history, the social sciences, and cultural studies); an extended knowledge of his/her special subject (K_W02+)</p>

<p>EK 2: Has an advanced scope of knowledge on the research methods and instruments used in European Studies and of the techniques used to obtain and process data; as well as on how to formulate and verify research hypotheses (K_W04++)</p> <p>EK3: Has an extended scope of knowledge of the terminology of the economic sciences and the operating principles of the common market (with additional details for graduates who have specialised in this area) (K_W13+++)</p> <p>EK 4: Has an extended scope of knowledge on international economic relations and European economic integration; (K_W14 ++)</p> <p>EK 5: Has the ability to identify, select, and correctly apply information, making use of an appropriate choice of sources and grading them; (K_U01 +++);</p> <p>EK 6: Has the ability to read, understand, and perform a critical analysis of texts relating to subjects associated with European Studies, comparing them with other texts containing different opinions on the same subject and drawing his/her own conclusions; (K_K02 +++)</p> <p>EK7: Has the ability to integrate various theoretical approaches for the explanation of the origins and consequences of specific political, social, and economic phenomena (K_U18++).</p>
<p>Course communication mariusz.trojak@uj.edu.pl Consultations after prior appointment made through the CES office</p>
<p>Notices and announcements All changes and updates regarding lectures will be communicated via the CES office in the form of emails and posted on the “CES to students” notice board</p>
<p style="text-align: center;">COURSE ORGANIZATION</p>
<p>Spring Semester Time and Place: will be posted by CES in the online calendar The course will consist of 10 meetings of 3 hours each. Lectures and conversation, exchange of views, presentations prepared by students on selected newest events.</p>
<p>Contact hours: 30 hours of lecture</p>
<p>Breakdown of ECTS credits 30 h - lecture 60 h - students' individual work in order to prepare for each lecture 30 h - work on essay 30 h - students' individual work to prepare for the final exam</p>
<p>Didactic methods used Lectures Discussions Task solving (numeration methods)</p>
<p>Mode and criteria of assessment of learning outcomes EK 1, EK 2, EK 3, EK 4, EK 5, EK6 - exam, essay EK 7 - presentation (intervention) and in-class discussion</p>
<p>Assessment of the course - Active participation in class (10% of final grade), essay (30%), exam (60%) - Length of essay 8 – 10 pages, time for presentation 15 – 20 minutes. - Content and form of essays – according to current events, presentations - up to students. - Assessment and evaluation – “palatable” form of communication to others, content and understanding of topic - students failing to meet deadlines for their presentation or for submission of the essay will be expected to write an additional essay. The topic and details of the essay will need to be consulted with the course</p>

coordinator.

- students who do not fulfil the expectations of the course (presentation, active participation) will not be allowed to take the final exam.

If this course is taken as a part of the *Finances in the EU* course (together with the *International Financial Markets*), the final grade will be calculated on the basis of the grades for each part. This means that each of two parts of the course *Finance in the EU* will be assessed separately and the weighted average will be calculated out of the two final grades received from two parts of the course.

The final grade will be calculated in the following way:

$(3 \times \text{grade for International Financial Markets} + 6 \times \text{grade for Finance}) / 2$

SEMINARS

No.	Title of the session	Date	Format (lecture, seminar, combination?)
1	Financial market structure and instruments	On-line calendar	Lecture + conversation
2	Valuation of stocks, bonds and derivatives	On-line calendar	Lecture + conversation
3	Efficient market hypothesis versus behavioural finance.	On-line calendar	Lecture + conversation
4	Capital Asset Pricing Model and Arbitrage Price Theory – risk weighted valuation	On-line calendar	Lecture + conversation
5	Definitions of moral hazard. Micro risk factors. Credit Rating Agencies.	On-line calendar	Lecture + conversation
6	Too important, too big, too interconnected to fail problem.	On-line calendar	Lecture + conversation
7	Macroeconomic risk factors.	On-line calendar	Lecture + conversation
8	Systemic risk definition. Macro prudential policy in EU versus USA methods	On-line calendar	Lecture + conversation
9	Presentation of essays	On-line calendar	Student presentations
10	Summing up	On-line calendar	Examples of previous tests
11	Exam session	On-line calendar	Written exam

DETAILED STRUCTURE OF THE COURSE

Session no. 1	Financial market structure and instruments
<i>Date</i>	On-line calendar
<i>Format</i>	Lecture + conversation
<i>Aim of the session, main issues discussed</i>	The lecture provides students with theory of financial markets and the key determinants of each segment of the market. Students will find out the differences between Nordic (continental European) and Anglo – Saxon models of financial markets. Additionally, they will be provided with basic financial instrument typology.
<i>Key readings for the session</i>	http://www.bcci.bg/projects/latvia/pdf/7_Financial_markets.pdf (pages: 6 -17)

<i>Questions for class discussion (based on readings)</i>	Why does the financial market system differ so much between countries? What are the key functions of the market? Can an efficient economy deal without the financial market?
<i>Additional/further readings</i>	http://ccsenet.org/journal/index.php/ass/article/viewFile/3448/3122

Session no. 2	Valuation of stocks, bonds and derivatives
<i>Date</i>	On-line calendar
<i>Format</i>	Lecture + conversation
<i>Aim of the session, main issues discussed</i>	Description of financial instruments (bonds, stocks, derivatives). The students will find out how to calculate the expected value of financial instruments. What is more, they will have the chance to compare the expected value with the market value of them and try to answer why there are such differences.
<i>Key readings for the session</i>	http://www.bcci.bg/projects/latvia/pdf/7_Financial_markets.pdf (pag
<i>Questions for class discussion (based on readings)</i>	What is the difference between stock and bond? Why is the value of an instrument not stable in time? Why did the derivatives market develop so quickly?
<i>Additional/further readings</i>	http://www.deloitte.com/assets/Dcom-SouthAfrica/Local%20Assets/Documents/uk_closer_look_ifrs_13.pdf

Session no. 3	Efficient market hypothesis versus behavioural finance.
<i>Date</i>	On-line calendar
<i>Format</i>	Lecture + conversation
<i>Aim of the session, main issues discussed</i>	The lecture will enable students to understand the mechanics of financial instrument valuation based on the weak, semi – strong and strong form of Efficient Market Hypothesis. Students will be able to evaluate if a particular instrument is overvalued or undervalued and what the process of market equalization would be. Contrary to this they will also learn the assumptions of behavioural finance and the differences between a “rational” and “behavioural” investor.
<i>Key readings for the session</i>	http://www.vixek.com/Efficient%20Market%20Hypothesis%20and%20its%20Critics%20-%20Malkiel.pdf
<i>Questions for class discussion (based on readings)</i>	What is the relationship between risk and value of financial instruments? Are the investors really rational?
<i>Additional/further readings</i>	Websites of the most important stock markets (NYSE, LSE)

Session no. 4	Capital Asset Pricing Model and Arbitrage Price Theory – risk weighted valuation
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<i>Date</i>	On-line calendar
<i>Format</i>	Lecture + conversation
<i>Aim of the session, main issues discussed</i>	This lecture will be devoted to the most recognised models of financial markets based on efficient market assumptions. They will learn the linear (CAPM) model as well as its improvement – the multi variable regression model (APT)
<i>Key readings for the session</i>	http://citeseerx.ist.psu.edu/viewdoc/download?doi=10.1.1.321.4782&rep=rep1&type=pdf
<i>Questions for class discussion (based on readings)</i>	What articles embedded in the EU Treaties deal with free movement of these four categories? What category is still far from really free movement and why? What are the circumstances permitted to ban the import of a given good?
<i>Additional/further readings</i>	http://www.ijeronline.com/documents/volumes/Vol2issue3/ijer20110203%2813%29.pdf

Session no. 5	Definitions of moral hazard. Micro risk factors. Credit Rating Agencies.
<i>Date</i>	On-line calendar
<i>Format</i>	Lecture + conversation
<i>Aim of the session, main issues discussed</i>	Presentation of the importance of the risk caused by hazardous behaviour of financial institutions – mainly banks. Students will use the example of “market for lemons” as a proxy for financial markets. They will also learn how the financial markets should deal with that problem. The emphasis will be put on Credit Rating Agencies, their role on the market and obvious misbehaviour during and before the crisis.
<i>Key readings for the session</i>	http://www.iei.liu.se/nek/730g83/artiklar/1.328833/AkerlofMarketforLemons.pdf
<i>Questions for class discussion (based on readings)</i>	Should we really believe in financial institutions? Does the financial institutions management take responsibility for their actions? What is the value of information produced by Credit Rating Agencies?
<i>Additional/further readings</i>	http://www.swp-berlin.org/fileadmin/contents/products/arbeitspapiere/The_Negative_Impact_of_Credit_Rating_Agencies_KS.pdf

Session no. 6	Too important, too big, too interconnected to fail problem.
<i>Date</i>	On-line calendar
<i>Format</i>	Lecture + conversation
<i>Aim of the session, main issues discussed</i>	The aim of this session is to draw the attention of students to the fact that financial institutions left without regulation can cause dramatic events in the economy of a particular country or the global economy. Students will have the chance to discuss possible solutions of these problems and different approaches of American and EU regulators. The case of the

	Lehman Brothers collapse will be presented.
<i>Key readings for the session</i>	http://www.newyorkfed.org/newsevents/speeches/2013/dud131107.html
<i>Questions for class discussion (based on readings)</i>	What is the economic sense of conducting such a time and cost consuming competition policy? Is, according to the EU competition policy, a dominant position forbidden? What institution has the last say in the area of competition policy?
<i>Additional/further readings</i>	http://www.peterleeson.com/TBTF_review.pdf http://www.investopedia.com/articles/economics/09/lehman-brothers-collapse.asp

Session no. 7	Macroeconomic risk factors.
<i>Date</i>	On-line calendar
<i>Format</i>	Lecture + conversation
<i>Aim of the session, main issues discussed</i>	Students will have the possibility to learn about recent progress in financial risk theory. The financial crisis caused numerous research works and advances in macroeconomics risk factors. This is not only a theoretical problem but also one that deals with a lot of affairs from the side of policy makers. New definitions have surfaced, such as macroprudential policy. This has led to changes in central bank functions worldwide.
<i>Key readings for the session</i>	http://www.imf.org/external/pubs/ft/sdn/2013/sdn1305.pdf
<i>Questions for class discussion (based on readings)</i>	What is the differences between macro and microprudential regulation? Who should be responsible for these regulations? Should taxpayers pay for the collapse of an individual bank or should they protect the financial system? Is financial stability important for stable economic growth?
<i>Additional/further readings</i>	http://www.bankofengland.co.uk/publications/Documents/other/financialstability/discussionpaper11220.pdf

Session no. 8	Systemic risk definition. Macro prudential policy in EU versus USA methods
<i>Date</i>	On-line calendar
<i>Format</i>	Lecture + conversation
<i>Aim of the session, main issues discussed</i>	Presentation of various definitions of systemic risk and difficulties connected with its measurement. Students will have the chance to compare various measures and approaches to systemic events. They will also compare the ways in which the ECB and FED deal with the systemic risk.
<i>Key readings for the session</i>	http://fic.wharton.upenn.edu/fic/Policy%20page/PTF-Note-1-Defining-Systemic-Risk-TF-Correction.pdf

<i>Questions for class discussion (based on readings)</i>	What are the most common factors of systemic risk? What kind of institutions are systemically important? Can a relatively small institution be systemically important?
<i>Additional/further readings</i>	http://www.jstor.org/stable/2328215

Session no. 9	Student presentations
<i>Date</i>	On-line calendar
<i>Format</i>	Students work
<i>Aim of the session, main issues discussed</i>	Students will be presenting their own work dealing with a topic mentioned in previous sessions. Each presentation will take from 15 to 20 minutes. Classmates will actively participate in discussions.
<i>Key readings for the session</i>	
<i>Questions for class discussion (based on readings)</i>	
<i>Additional/further readings</i>	