# Economics and Technique of Financial Markets and Institutions

## Prof. Alberto Banfi; Prof. Luca Bodio

***Text under revision. Not yet approved by academic staff***

***COURSE AIMS AND INTENDED LEARNING OUTCOMES***

The course aims to offer students an analysis of certain economic phenomena that will complete their learning in the field of financial instruments and the role of financial intermediaries.

It is divided into 4 parts: the first and second parts refer to the operations of banks and financial intermediaries in the light of recent reforms in supervisory activities, the prolongation of the economic and financial crisis, and the interventions adopted by the supervisory authorities; the third and fourth parts deal with issues concerning the financial instruments markets, including some in-depth analysis of the techniques used in evaluating debt securities and shares, as well as the resource obtaining potential of companies using alternative channels to traditional bank credit (given banks' difficulties in fully meeting the financing needs of companies, which have always been characterised by a preponderance of credit and the scarce use of alternative financing sources).

All the topics will be covered making extensive use of examples and through financial calculations and economic analyses deemed indispensable for a better learning of the topics.

At the end of the course, students will be able to:

- know the methods for issuing and placing financial instruments: auctions of public securities, issues through placement and guarantee consortia, and capital increases in their different configurations (paid, free and mixed);

- calculate the theoretical opted value of shares and the various configurations of option rights in even complex capital increase transactions;

- know the requirements for admitting securities to trading in the stock market and its segments, as well as the complete listing admission process;

- understand the role of supervisory authorities and the importance of controls in banking;

- recognise the importance of a bank's regulatory capital and understand the methods for calculating the main mandatory capital requirements;

- know about loan granting and management methods in light of recent regulatory innovations;

- understand the recent evolution in the Italian banking market and the current structure of the national and international banking system;

- read and interpret the main statistics on the banks and financial intermediaries operating in Italy.

***COURSE CONTENT***

1. *Supervision, capital requirements and effects on bank operations*. Regulatory capital and capital requirements: calculation techniques. Modalities of crisis resolution mechanisms. The European Central Bank and monetary policy operations to support bank funding.
2. *The issuance of financial instruments by companies*. The techniques for placing financial instruments. Share offers and capital transactions. Effects of share issues on the secondary market. Equity securities and valuation techniques.
3. *Credit disbursement techniques and new supervisory provisions.* Phases of the credit-granting process: preliminary investigation, proposal, resolution, disbursement. The commercial value of entrusted customer management. Criticality indicators of existing credits. Management techniques for non-performing loans (hints).
4. *Debt instruments and valuation techniques.* The profitability of debt instruments and interest rate risk: references. Elements for risk assessment: duration and convexity. The term structure of interest rates.

***READING LIST***

A. Banfi-M. Biasin-M. Borroni-M. Oriani, *Economia degli intermediari finanziari*, Isedi, Turin, 2022.

A. Banfi-F. Di Pasquali, *Le banche centrali negli anni della crisi*, Isedi, Turin, 2014.

For details of the bibliography and material useful for taking the exam, please refer to the specific notice on the Blackboard.

***TEACHING METHOD***

The course runs for 12 weeks and includes 60 hours of lectures by Prof. Alberto Banfi (30 hours) and Prof. Luca Bodio (30 hours). Prof. Banfi’s lectures in the first six weeks will cover points 1 and 2 of the course syllabus, while Prof. Bodio's lectures in the last six weeks, will cover points 3 and 4 of the syllabus.

Frontal lectures with the aid of slides and other supporting material. The slides used in lectures are available to students by accessing the download area on the lecturer's webpage on the virtual classroom and Blackboard. During the academic year, documentation material will be distributed to attending students for the in-depth study of individual aspects of the subject covered.

***ASSESSMENT METHOD AND CRITERIA***

A written exam. Specifically, the written exam involves answering an adequate number of open-ended questions and/or exercises (from a minimum of 5-6 to a maximum of 10-12), which the lecturer uses to ascertain students' preparation.

Depending on the number of students scheduled for the exam, different sets of questions and/or exercises may be prepared yet still all of equal difficulty. The final mark, out of thirty, will consider accuracy and quality of students' answers, as well as **their appropriate use of specific terminology.**

Interested students can take the exam at first carrying out an interim test (in the middle of the course during the week dedicated to interim tests) and a second final exam will take place (only during the first exam cycle of the January-February 2024 session): both tests must reach a passing grade, expressed in thirtieths, and the final grade will take into account of both results.

The methods for registering and taking these two tests will be indicated by way of a specific notice.

***NOTES AND PREREQUISITES***

Before entering the course, students should possess the following knowledge:

- the technical characteristics of the main types of financial instruments (and in particular those subject to trading on regulated markets);

- how to calculate the various types of returns on money market instruments and fixed-income securities;

- the system of financial intermediaries and the role credit intermediation plays in it in detail; they should also know the main regulatory references regarding markets, and market and supervisory institutions;

- the main fundamentals of banking management, with particular attention to the specific role of the bank as a financial intermediary;

- the structure of the bank's balance sheet and income statement.

Further information can be found on the lecturer's webpage at http://docenti.unicatt.it/web/searchByName.do?language=ENG, or on the Faculty notice board