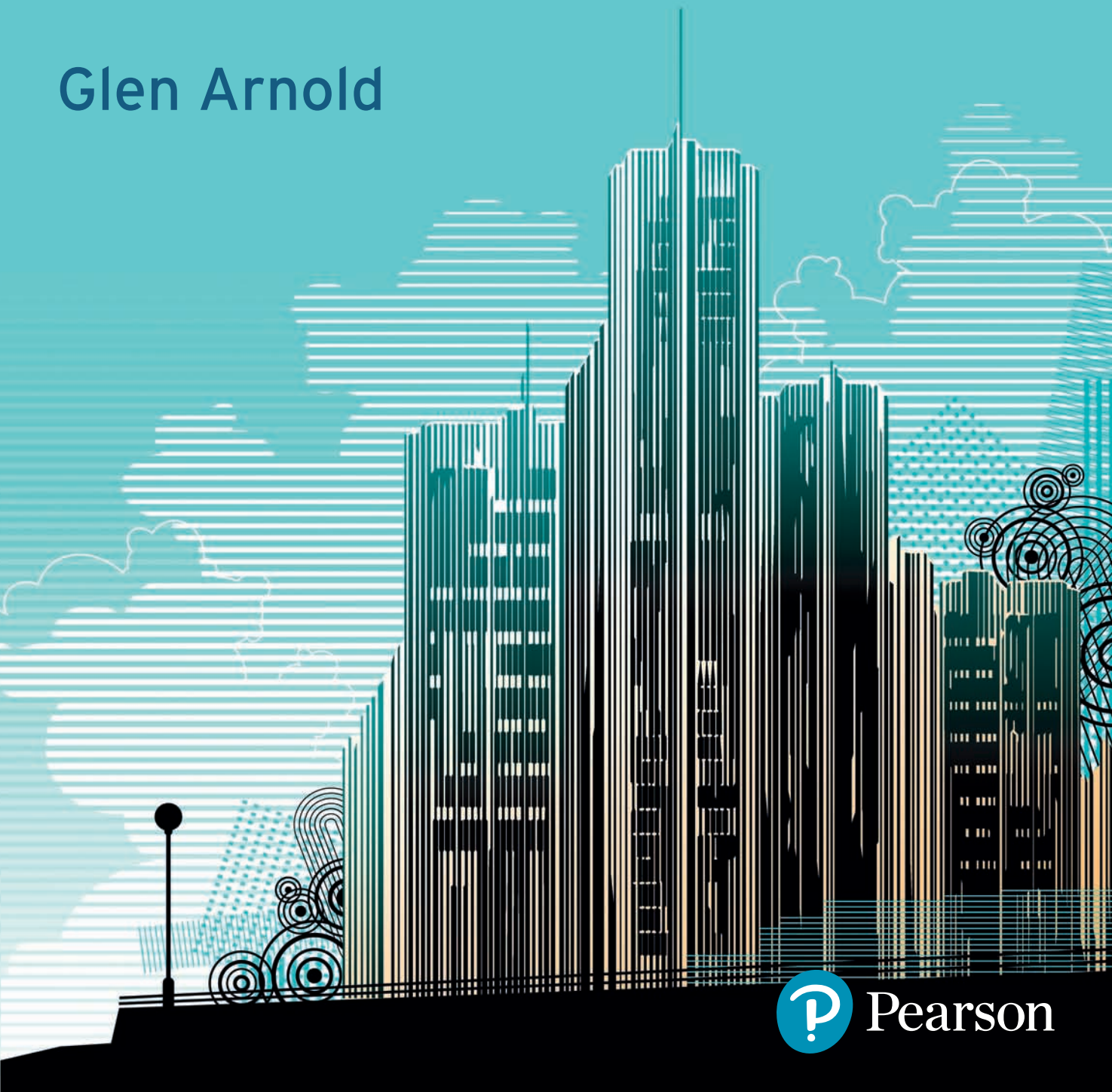


MODERN FINANCIAL MARKETS AND INSTITUTIONS

A Practical Perspective

Glen Arnold



Pearson

MODERN FINANCIAL MARKETS AND INSTITUTIONS

Visit the *Modern Financial Markets and Institutions* Companion Website at www.pearsoned.co.uk/arnold to find valuable **student** learning material including:

- Multiple choice questions to help test your understanding
- Links to relevant sites on the World Wide Web
- An online glossary to explain key terms
- Flashcards to help you prepare for exams



Modern Financial Markets and Institutions

Table of Contents

Front Cover

Modern Financial markets and Institutions

Brief contents

Contents

Introduction to the book

Acknowledgements

The value of the financial system

Learning Outcomes

The impact of these markets on our lives

Banking

Importance of different financial centres

World without money or financial institutions

Financial markets

Growth in the financial services sector

Debt and equity capital

Primary and secondary markets

Exchange-traded and OTC markets

The financial institutions

Concluding comments

Key points and concepts

References and further reading

Websites

Video presentations

Case study recommendations

Self-review Questions

Questions And Problems

Assignments

Table of Contents

Web-based Exercises

Banking: retail and corporate

Learning Outcomes

What is banking?

Core banking

Lending

Payment mechanisms

Corporate banking

Uncommitted facilities

Committed facilities

Cash management

Guarantees

Overseas trade

Foreign exchange risk management and interest risk management

Other commercial banking services

How a bank operates

Liquidity management and reserves

Asset and liability management

Capital adequacy management

Income statements

Concluding comments

Key points and concepts

References and further reading

Websites

Video presentations

Case study recommendations

Self-review Questions

Questions And Problems

Assignments

Web-based Exercises

Investment banking and other banking

Table of Contents

Learning Outcomes
Investment banking
Global investment banks
Corporate and government assistance
Market activities
International banking
The mutuals
Finance houses
Islamic banking
Concluding comments
Key points and concepts
References and further reading
Websites
Video presentations
Case study recommendations
Self-review Questions
Questions And Problems
Assignments
Web-based Exercises

Insurance, pensions and collective investments

Learning Outcomes
Insurance
The London market
Pensions
Pension fund asset holdings
Regulations
Collective investment
Concluding comments
Key points and concepts
References and further reading
Websites
Video presentations

Table of Contents

Case study recommendations

Self-review Questions

Questions And Problems

Assignments

Web-based Exercises

Money markets

Learning Outcomes

Interest often comes from discount pricing

The markets in short-term money

Money market funds

Functions of money

The time value of money

The interbank market

Eurocurrency

Treasury bills

Central banks

Commercial paper

Credit ratings

Repos

Local authority/municipal bills

Certificates of deposit (CDs)

Bills of exchange/bankers acceptances

Money market interest rates in the Financial Times

Comparing interest rates

Concluding comments

Key points and concepts

Appendix 5.1 Converting from a 365-day basis to a 360-day basis

Appendix 5.2 Mathematical tools for finance

References and further reading

Websites

Video presentations

Table of Contents

Case study recommendations

Self-review Questions

Questions And Problems

Assignments

Web-based Exercises

Bond markets

Learning Outcomes

Bonds

Government bond markets

Government bonds around the world

Corporate bonds

Credit rating

High-yield (junk) bonds

Local authority/municipal bonds

Convertible bonds

Strip bonds

Securitisation

Covered bonds

Foreign bonds

Eurobonds (international bonds)

Euro medium-term notes and domestic medium-term notes

Islamic bonds (sukuk)

Valuing bonds

Duration

Demand and supply curves for bonds

The term structure of interest rates

Concluding comments

Key points and concepts

References and further reading

Websites

Video presentations

Table of Contents

Case study recommendations

Self-review Questions

Questions And Problems

Assignments

Web-based Exercises

Central banking

Learning Outcomes

Monetary policy

How monetary policy impacts the economy

Safety and soundness of the financial system

Other activities of central banks

Bank of England

European Central Bank

The US Federal Reserve

Concluding comments

Key points and concepts

References and further reading

Websites

Video presentations

Case study recommendations

Self-review Questions

Questions And Problems

Web-based Exercises

Equity markets

Learning Outcomes

The value of joint stock enterprises/a little history

Ordinary shares (equity)

Preference shares

Some unusual types of shares

Stock exchanges around the world

The importance of a well-run stock exchange

Table of Contents

New trading systems
The London Stock Exchange
How stock exchanges work
Share borrowing, lending and shorting
The ownership of UK shares
Concluding comments
Key points and concepts
References and further reading
Websites
Video presentations
Case study recommendations
Self-review Questions
Questions And Problems
Assignments
Web-based Exercises

Raising share capital

Learning Outcomes
Floating on the Main Market of the London Stock Exchange
Post-listing obligations
The Alternative Investment Market (AIM)
PLUS
Understanding the figures in the financial pages
Rights issues
Placings, open offers and clawback
Scrip issues, scrip dividends, splits and consolidation
Share buy-backs and special dividends
Warrants
Concluding comments
Key points and concepts
References and further reading
Websites

Table of Contents

Video presentations

Case study recommendations

Self-review Questions

Questions And Problems

Assignments

Web-based Exercises

Futures markets

Learning Outcomes

What is a derivative?

Forwards

Futures

Settlement

Over-the-counter (OTC) and exchange-traded derivatives

Buying and selling futures

Single stock futures

Short-term interest rate futures

Forward rate agreements (FRAs)

Derivatives users

Concluding comments

Key points and concepts

References and further reading

Websites

Video presentations

Case study recommendations

Self-review Questions

Questions And Problems

Assignments

Web-based Exercises

Options and swaps

Learning Outcomes

Options

Table of Contents

Using share options to reduce risk: hedging

Index options

A comparison of options, futures, forwards and FRAs

Spread betting

Contracts for difference

Caps

Swaps

The relationship between FRAs and swaps

Credit default swap (CDS)

Concluding comments

Key points and concepts

Appendix 11.1 Option pricing

References and further reading

Websites

Video presentations

Case study recommendations

Self-review Questions

Questions And Problems

Assignments

Web-based Exercises

Foreign exchange markets

Learning Outcomes

The foreign exchange markets

FX trading

Exchange rates

Exchange rate regimes

FX volatility and its effects

Dealing with exchange rate risk

Exchange rate determination

Interest rate parity theory

Expectations theory

Table of Contents

The influence of a current account deficit and capital flows

Efficiency of FX markets

Concluding comments

Key points and concepts

References and further reading

Websites

Video presentations

Case study recommendations

Self-review Questions

Questions And Problems

Assignments

Web-based Exercises

Trade, shipping, commodities and gold

Learning Outcomes

Trade

Shipping

Commodities

Gold

Concluding comments

Key points and concepts

References and further reading

Websites

Video presentations

Case study recommendations

Self-review Questions

Questions And Problems

Assignments

Web-based Exercises

Hedge funds and private equity

Learning Outcomes

Hedge funds

Table of Contents

Hedge fund strategies
Prime brokerage
Private equity
Private equity categories
Private equity providers
Concluding comments
Key points and concepts
References and further reading
Websites
Video presentations
Case study recommendations
Self-review Questions
Questions And Problems
Assignments
Web-based Exercises

Regulation of the financial sector

Learning Outcomes
Why regulate?
The dangers to watch out for in a regulatory system
Types of regulation
Regulation of UK financial services
European Union regulation
Global regulation
Some gaps in the system?
Concluding comments
Key points and concepts
References and further reading
Websites
Video presentations
Case study recommendations
Self-review Questions

Table of Contents

Questions And Problems

Assignments

Web-based Exercises

The financial crisis

Learning Outcomes

The autistic mathematicians and the autistic financial economists¹

Reflexivity

Some of the more proximate causes of the crisis

The crash

Government actions

Concluding comments

Key points and concepts

References and further reading

Video presentations

Case study recommendations

Self-review Questions

Questions And Problems

Appendices

Appendix I Future value of £1 at compound interest

Appendix II Present value of £1 at compound interest

Appendix III Present value of an annuity of £1 at compound interest

Appendix IV Future value of an annuity of £1 at compound interest

Appendix V Answers to the mathematical tools exercises in Chapter 5,
Appendix 5.2

Appendix VI Answers to end-of-chapter numerical questions

Glossary

Index

Back Cover