

# Recap

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# Outline

1 What happened

2 Specifically

3 Why is it relevant?

4 Exam

## This is what you should have learned

- ▶ What a stock, bond, or any risky asset is, and how to value it
- ▶ The canonical models and zombie theories of finance: CAPM, Modigliani-Miller.
- ▶ Elementary probability theory and data analysis
- ▶ Frontier topics in financial economics, macroeconomics, like microfinance, algorithmic trading and financing innovation.
- ▶ Important episodes in financial history.

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# Course outline

- 1 What is the purpose of finance? What is the market?
- 2 Finance, regulation and EMU
- 3 Banking/Regulation/Crises: Minsky and the Balance Sheet Recessions
- 4 ECB, Ireland, and EMU: Bond Markets as king makers
- 5 Cross Border Capital Flows: leverage, liquidity and crises
- 6 Zombie Theories of Finance
- 7 Finance, Innovation and growth: Schumpeter vs Romer. A case of technological change
- 8 Finance and Development 1: Microfinance: holy grail of development finance?
- 9 Finance and Development 2: Swaps and CDS as a good thing?
- 10 Ethical Finance: doing good and making money at the same time?
- 11 Algorithmic trading, high frequency finance: the case of the flash-crash

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# Introduction

- ▶ What is finance for?
- ▶ What does the market do
- ▶ Real world supply and demand
- ▶ Limit Only Order Markets

# Finance, regulation and EMU

- ▶ Interaction between finance, regulation, and macroeconomics: the case of the European Monetary project.
- ▶ We need tools to think about the financial crisis. So lets look at two. ISLM and IS-MP



# Banking/Regulation/Crises: Minsky and the Balance Sheet Recessions

Ireland's economic crisis is, at once

- ▶ a banking/balance sheet crisis
- ▶ a fiscal crisis
- ▶ a credibility crisis
- ▶ a regulatory crisis
- ▶ a political crisis

# ECB, Ireland, and EMU: Bond Markets as king makers

- ▶ The role of the ECB as crisis-killer
- ▶ Bond markets as arbiters of wisdom
- ▶ External pricing/market activities as indicators of domestic health

# Cross Border Capital Flows: leverage, liquidity and crises

- ▶ Balance of Payments, CA and KA
- ▶ Leverage and Fragility
- ▶ Deleveraging

# Zombie Theories of Finance

- ▶ 'Theories' of finance
- ▶ Portfolio Selection Theory
- ▶ Capital Asset Pricing Model
- ▶ Efficient Market Hypothesis

# Finance, Innovation and growth: Schumpeter vs Romer. A case of technological change

- ▶ Capitalism and Innovation
- ▶ Endogenous technological change
- ▶ Financial market imperfections
- ▶ Techno-economic paradigms

# Finance and Development 1: Microfinance: holy grail of development finance?

- ▶ Formal and Informal credit market
- ▶ A study in Agricultural Backwardness Under Semi-Feudalism
- ▶ The Microfinance revolution

## Finance and Development 2: Swaps and CDS as a good thing?

- ▶ Swaps as a tool to mitigate risk, but not only
- ▶ Various types of swaps
- ▶ CDS and the financial crisis

# Ethical Finance: doing good and making money at the same time?

- ▶ Why is this important?
- ▶ History of ethics in economics.
- ▶ Some applications



# Algorithmic trading, high frequency finance: the case of the flash-crash

- ▶ Structure and regulations favouring one type of actors vs others
- ▶ The flash crash
- ▶ The new financial markets (Colocation, data feeds, algorithmic trading)
- ▶ Consequences (Market structure, volatility, spreads, IPO's)

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# Details

- ▶ Duration: 2.5 hours
- ▶ Percentage of total assessment: 60%
- ▶ Structure:
  - ▶ Section 1: Answer all of the short questions (Worth 30% of the grade)
  - ▶ Section 2: Answer 3 of the 7 long questions (Worth 70% of the grade)