

Course Title	:	Hong Kong Monetary & Financial Systems
Course Code	:	FIN2201
Recommended Study Year	:	2 or 3
No. of Credits/Term	:	3
Mode of Tuition	:	Sectional Approach
Class Contact Hours	:	3 hours per week
Category in Major Programme	:	Stream Required - Finance Stream
Prerequisite	:	BUS2201 Financial Management

Brief Course Description

This course provides students with a basic understanding of the monetary and financial system in Hong Kong and their recent development. It covers topics like interest rate determination, foreign exchange markets, money supply process, conduct of monetary policies, currency board system, international financial centers and the functions of financial markets and financial institutions.

It also helps students understand the basic economic concepts and theories related to financial markets and financial institutions as well as financial instruments.

Aims

This course aims at providing students with a basic understanding of the functions of various financial institutions and financial markets. It will also equip students with the knowledge on money supply and monetary policies, Hong Kong as an international financial center, the conduct of monetary policies and financial regulations in Hong Kong. The course also provide students with an understanding on the recent developments on the financial markets in Hong Kong and China.

Learning Outcomes (LOs)

On completion of this course, students will be able to:

1. Understand the functions of various financial institutions and financial markets including bond market and foreign exchange markets
2. Explain multiple credit creation, money supply, the money creation process and the conduct of monetary policies by central banks

3. Evaluate Hong Kong as an international financial center and describe the monetary policies in Hong Kong.
4. Describe banking and securities market regulations in Hong Kong and understand the importance of regulation compliance in financial markets.
5. Apply theories to understand recent developments in the financial markets of Hong Kong and China

Indicative Contents

Financial Markets and Financial Centers

Direct finance vs indirect finance

Functions of financial intermediaries

Functions of financial markets

Define international financial centers

Quantitative and qualitative requirements for an international financial centers

Evaluate Hong Kong's role as an international financial centers

Money

Money and its aggregate measures.

Money creation process.

Monetary base in Hong Kong.

Multiple credit creation.

Money supply.

Monetary Policy

Functions of central bank.

Tools for central banks' Operations in financial markets

Hong Kong Monetary Authority (HKMA).

Monetary policy in Hong Kong.

Discount Window Operation in Hong Kong. Comparison with other countries.

Bond Market

Types of bonds.

Hong Kong Bond market.

Various interest rates.

Yield structure of interest rates

Term structure of interest rates.

Foreign Exchange Market

Long term and short determination of exchange rate

Hong Kong Foreign exchange market.

The linked exchange rate system in Hong Kong: history, mechanism benefits and costs.

Stock Market

Efficient market theory.

Hong Kong stock market.

Main board listing and the growth enterprise market (GEM).

Regulations.

Financial Institutions and Regulations

Three-tier banking system.

Banks and Asymmetric Information.

Adverse selection and moral hazard.

Deposit insurance.

Bank run.

Banking regulations in Hong Kong.

Basel III.

Teaching Method/Class Activities

Class activities include lectures and class discussion. During class discussion, materials on current issues in financial markets will be provided to students. Students are encouraged to apply the theories they have learned in the course to analyze the news.

Measurement of Learning Outcomes

The test and the final exam will largely consist of multiple choice questions, open-end questions, short essay questions and workout problems. Student's ability to apply theoretical concepts to real world events will be evaluated by team projects.

1. Multiple choice questions in tests and final examinations assess students' understanding of theories and concepts. Open-end questions and essay questions in final examination assess students' ability to articulate and apply the acquired know-how to real world situations. (LO1, LO2, LO3, LO4)
2. Workout problems in final examination measure students' mastery of financial problem-solving techniques and skills. (LO1, LO2)
3. Term project evaluates students' skills to explore sources for information and the ability to critically analyze current issues in light of the theories learnt in the course. (LO5)

Assessment

Continuous Assessment: Term Project

20%

Students are required to write a research paper on the development of a relevant topic. The paper should require students to search for information from various sources including the internet; to review related current issues and opinions; and to give their critical comments.

Continuous Assessment: Two Tests 30%
Multiple choice questions and open-end questions will be given to test students' understanding of key concepts.

Examination: Cumulative Final 50%
Final examination tests will include multiple choice questions, short essays, and open-end questions. Multiple choice questions are used to test students' understanding of key concepts. Short essays and open-end questions are used to gauge students' ability to articulate their understanding of key concepts and to apply learnt theories in realistic situation.

Required/Essential Reading

Mishkin F.S., *The Economics of Money, Banking and Financial Markets* (PAPER-BACK), latest edition, Pearson.

Recommended/Supplementary Readings

Frederic S. Mishkin and Stanley G. Eakins, *Financial Markets and Institutions*, latest edition, Pearson.

Articles:

1. Jao Y.C. (2003), Shanghai and Hong Kong as International Financial Centres: Historical Perspective and contemporary Analysis, http://www.hiebs.hku.hk/working_papers.asp?ID=91
2. HKMA, Just another financial center or is Hong Kong Special? http://www.info.gov.hk/hkma/eng/speeches/speechs/tony/20010425_index.htm
3. HKMA, Seven pointers of Financial Development <http://www.tdctrade.com/econforum/hkma/hkma041102.htm#>
4. HKMA, Hong Kong as an international financial centre: measuring its position and determinants http://www.info.gov.hk/hkma/eng/research/working/pdf/HKMAWP07_14_full.pdf
5. HKMA, Definition of Money Supply <http://www.info.gov.hk/hkma/eng/public/qb200205/fa02.pdf>
6. HKMA, Who and What Determine Monetary Policy in Hong Kong <http://www.info.gov.hk/hkma/eng/public/qb200205/fa6.pdf>
7. HKMA, Mandate and Governance of Hong Kong Monetary Authority, http://www.hkma.gov.hk/media/eng/publication-and-research/background-briefs/bg_brief_3/bg_brief_3_eng.pdf

8. HKMA, Functions and Responsibilities in Monetary and Financial Affairs
<http://www.hkma.gov.hk/media/eng/doc/key-information/press-release/2003/20030627e3a1.pdf>

9. HKMA, Hong Kong Monetary Objectives
<http://www.hkma.gov.hk/media/eng/doc/key-information/press-release/2003/20030627e3a2.pdf>

10. HKMA, Hong Kong Linked Exchange Rate System
http://www.info.gov.hk/hkma/eng/public/hkmalin/hkmalin_eng.pdf

11. HKMA, Banking Supervision in Hong Kong
<http://www.info.gov.hk/hkma/eng/public/index.htm> (go to reference books and then banking)

12. HKMA, Supervisory Policy Manual: Risk-Based Supervisory Approach
<http://www.info.gov.hk/hkma/eng/bank/spma/attach/SA-1.pdf>

13. HKMA: Implementation of Basel II in Hong Kong
<http://www.info.gov.hk/hkma/eng/public/qb200108/fa02.pdf>
<http://www.info.gov.hk/hkma/eng/public/qb200309/fa5.pdf>
<http://www.info.gov.hk/hkma/eng/public/qb200509/fa1.pdf>
<http://www.info.gov.hk/hkma/eng/public/qb200512/sm1.pdf>

14. HKEX, HKex's Role and Responsibilities
<http://www.hkex.com.hk/research/rpapers/HKEXRR.pdf>

15. HKEX, Introduction to Regulatory Framework (Securities Market)
<http://www.hkex.com.hk/rulereg/introreg/introreg.htm> (go to regulatory Framework and Rules)

16. Wong, Sonia ML (2006), China's Stock Market: A Marriage of Capitalism and Socialism, Cato Journal, Vol. 26, 1-36
<http://www.cato.org/pubs/journal/cj26n3/cj26n3-1.pdf>

Some Useful Websites relevant to this course

www.hkma.gov.hk (Hong Kong Monetary Authority)

www.hkex.com.hk (Hong Kong Exchanges and Clearing Limited)

www.pbc.gov.cn (People's Bank of China)

www.kpmg.com.hk (KPMG is a professional services firm that has survey data on the financial performance of Hong Kong banks)

www.financeasia.com (current news and other information about the financial services industry)

www.oecd.org/daf/corporateaffairs (OECD, world-wide development in corporate governance)

<http://www.hkiod.com/eng/main.html> (Hong Kong Institute of directors, corporate governance and excellence of directorship in HK)

Important Notes

- (1) Students are expected to spend a total of 10 hours (i.e. 3 hours of class contact and 7 hours of personal study) per week to achieve the course learning outcomes.
- (2) Students shall be aware of the University regulations about dishonest practice in course work, tests and examinations, and the possible consequences as stipulated in the Regulations Governing University Examinations. In particular, plagiarism, being a kind of dishonest practice, is “the presentation of another person’s work without proper acknowledgement of the source, including exact phrases, or summarised ideas, or even footnotes/citations, whether protected by copyright or not, as the student’s own work”. Students are required to strictly follow university regulations governing academic integrity and honesty.
- (3) Students are required to submit writing assignment(s) using Turnitin.
- (4) To enhance students’ understanding of plagiarism, a mini-course “Online Tutorial on Plagiarism Awareness” is available on <https://pla.ln.edu.hk/>.