FIN/366 Weekly Overview

Week Four: Institutional Investment

Objectives for the Week

* Explain how money markets work.
* Describe how businesses, government units, and individuals participate in money markets.
* Explain how the roles and functions of bond markets differ from those of money markets.
* Describe the types of equity securities and how they are used by institutional investors.

What You Already Know

In Week Three, students were introduced to the top ten financial risks and different ways to assess or measure those risks. Among the risk types explored were technology and insolvency risks. These concepts were applied to professional settings. Risk measurement tools, such as the duration model and the repricing model were examined, highlighting the benefits and drawbacks. Money market risk measurement methods were also presented with a focus on accuracy. Students also gained an understanding of the difference between interest rates and interest income and how each influences the risks faced in financial transactions.

This Week in Context

In Week Four, students will be introduced to money markets. Money markets are not banded like the stock markets. Trading occurs through dealers who buy and sell through their own securities. Money markets offer financial institutions the ability to buy and sell securities, such as federal funds. Risks on these transactions, such as low default risks and high marketability are discussed. Students will gain an in-depth perspective on how the different participants, such as the government, use money markets. The role of bond markets and equity securities will also be defined. These concepts apply to financial managers who must understand the similarities and differences between money markets, bond markets, and equity securities in order to perform their jobs effectively.

Assignment Overview

In the individual assignment due this week, students apply their understanding of risks within financial transactions by identifying the risk in a given scenario, explaining why that risk type was chosen, identifying whether or not interest income or interest rate is involved, and describing what form of risk measurement would be used to measure interest risk. Students are given the opportunity to participate in additional activities that further discuss and explore the relationship between the money, bond, and equity securities markets.