**Capital Markets**

* **Course Objectives**

The global banking industry continues to face increased competition, consolidation and regulatory uncertainty. For most financial institutions, the issue is not just a question of what it will take to win in such an environment, but what will it take to survive and profitably compete. The task of planning, implementing and overseeing the funds of an individual investor or an institution such as a commercial bank is referred to as investment management. With ever increasing liquidity in commercial banks coupled with limited lending opportunities, the process of investment management has gained importance as a major source of profitability for the banks.

The goals of this course are thus to:

* expand candidates’ awareness and understanding of the process of investment management, financial markets, products offered and the interplay of macroeconomics on asset market movements and valuation,
* acquaint the candidates with policy issues affecting development of securities markets, fiscal policies and their impact on corporate sector, investment and taxation and interest rates and inflation issues in investment management,
* familiarize the candidates with the role of Participants in Capital Markets and legal and regulatory framework affecting the development Capital Markets, and
* give the candidates a better understanding of the positions available and the functions of those positions within the investment banking and financial services fields.
* **Syllabus**

1. **Capital Markets and Role of Participants in Development of Capital Markets**

* Capital Markets and Economic Development
* Regulators, financial institutions, accountants/auditors, government
* Issuers of securities in capital markets:  private and public-sector companies; local and multinational companies
* Investors in capital markets:  individuals and institutional players
* Professionals:  brokers, dealers, underwriters, merchant and investment bankers, securities lawyers
* Financial intermediaries:  commercial banks, merchant banks, mutual funds, insurance companies

1. **Legal and Regulatory Framework**

* Reasons behind the Regulations.
* The Regulations for Commercial Banks relating to Investment activities
* Government Regulations:  securities exchange commissions, central banks, ministries of finance, registrar of companies affecting the Capital Market
* Stock Exchange:  rules and regulations, self or external regulation, membership and listing standards.
* Regulations of Securities Markets (SECP/Government Regulations, Self-Regulations and Circuit Breakers, Insider Trading)
* Income Tax Regulations

1. **Overview of Financial Markets and Investments**

* Financial Assets: (Issuers (borrowers) and investors (lenders); Debt versus Equity claims
* Financial Markets: (Classification and Functions of Financial Markets, Globalization of Financial Markets)
* Money Market Instruments (Treasury Bills, Certificates of Deposits, Bankers’ Acceptances, Eurodollars, Repos and Reverse Repos, Call Money Market etc.)
* Capital Market Instruments
* Fixed Income Instruments (Treasury Notes and Bonds, Municipal Bonds, Corporate Bonds, Term Finance Certificates, Asset Backed Securities etc.)
* Equity Securities (Preferred Stocks, Common Stocks)
* Derivative Markets (Introduction only)
* Worlds’ Leading Stocks and Bonds markets

1. **Capital Markets in Pakistan**

* Development of Financial/Capital Market in Pakistan
* Institutional Players and Their Role in Development of Capital Market in Pakistan (ICP, NIT, Commercial Banks)
* Role of SBP/SECP/Stock Exchanges and GOP in Development of Capital Market (Rules, Regulations, GOP Policies of Deregulation, Privatization etc.)
* Bond Market (Corporate Bonds, TFCs, PIBs)
* Mutual Funds
* Karachi/Lahore/Islamabad Stock Exchanges and Equity Market

1. **Primary and Secondary Markets and Trading Mechanics**

* How Firms Issue Securities; Role of Investment Bankers, Underwriting, Shelf registration, Primary Market and IPOs.
* Where Securities Are Traded; The Secondary Market, OTC Market, Third and Fourth Markets, Trading on Stock Exchange (The Participants, Types of Orders, Settlements, Carry Over Transactions/Cash Finance System /Trading on Margin etc.)
* Trading Costs
* Short Sales (with special reference to local Regulations)

1. **Mutual Funds & Other Investment Companies**

* Investment Companies and Their Types (Unit Investment Trusts, Managed Investment Companies)
* Mutual Funds and Their Types (Open-end and Closed-end Funds, Costs of Investing in Mutual Funds I.e. Fee Structure and Fees and Mutual Funds Returns, Taxation of Mutual Funds Income)

1. **Interest Rates in The Financial System**

* Definition of Interest Rates and Their Role in the Economy
* Theories of Interest Rates (Classical Theory, The Liquidity Preference Theory, The Loanable Funds Theory, The Rational Expectations Theory, Demand for and supply of funds under these theories)

1. **Relationship between Interest Rates and Security Prices**

* Measurement of Interest Rates, Basis Points, Security Prices
* Real and Nominal Rates of Interest, The Equilibrium Real Rate of Interest
* Measures of the Rate of Return or Yield on a Security or Loan (Coupon Rate, One Holding-Period Yield and Their Calculation, Yield Price Relationship)
* Method of Interest Rates Charged by Institutional Lenders (Simple Interest Method, Add-On Rate of Interest, Discount Method, Annual Percentage Rate, Compound Interest Rates, The Annual Percentage Yield)

1. **Default Risk and Other Factors Affecting Interest Rates**

* Marketability and Liquidity of Securities,
* Default Risk and Interest Rates,
* Call Privileges (Calculating Yield, Advantages/disadvantages of Call Privilege etc.)
* Prepayment Risk and Interest Rates on Loan Backed Securities
* Convertible Securities

1. **Risk and Return Analysis**

* Definition of Risk and Return (One Holding period Return, Multiple–periods Return
* Measures of Risk and Return (Variance, Standard Deviation, Weighted Average Rate of Return, Geometric Rate of Return etc.)
* Selecting Individual Securities for Investment (Coefficient of Variance)

1. **Portfolio Analysis and Risk Aversion**

* Asset Risk Versus Portfolio Risk
* Systematic and Firm-Specific Risk
* Diversification and Portfolio Risk
* Diversification Strategies (simple, Across Industries, Superfluous, Markowitz Diversification etc.)
* Two Asset Portfolio’s Risk and Return Analysis
* Asset Allocation with Stocks, Bonds and T-Bills
* Asset Allocation and Security Selection

1. **Equilibrium in Capital Markets**

* The Capital Asset Pricing Model and Its Application
* Arbitrage Pricing Theory
* Market Efficiency (Efficient Market Hypothesis)

1. **Valuation of Fixed Income Securities**

* Characteristics of Various Bond Types i.e. T-Bonds and Notes, Corporate Bonds, Preferred Stocks, International Bonds, TFCs.
* Determining Intrinsic Value (Price/Value) of Bonds.
* Default Risk and Price of Bonds
* Bond Yields (Yield to maturity, Current Yield and Capital Gain Yield, Yield to Call, Yield to Maturity and Default Risk)
* Bond Prices Over time
* Return of Zero Coupon Bonds
* Managing Interest Rate Risk with Bonds (Interest Rate Sensitivity, Duration)

1. **Equity Valuation**

* Balance Sheet Methods (Book Value, Liquidation Value, Replacement Value)
* Intrinsic Value versus Market Price
* Dividend Discount Models (Zero-Growth Stocks, Constant-Growth Stocks, Non-Constant-Growth Stocks)
* Price-Earnings Ratio (P/E Ratio and Growth Opportunities, P/E ratio and Stock Risk, Pitfalls in P/E Analysis)

1. **Options Markets and Valuation**

* Definition of Options
* Types of Options (American versus European Options, Call Vs Put Options)
* The Put-Call Parity Relationship
* Option like Securities (Callable Bonds, Convertible Securities, Warrants)
* Option Valuation (Intrinsic and Time Value, Black-Scholes Model)

1. **Futures Markets**

* Futures versus Forward Contracts (Definition, Contents of Futures Contracts)
* Mechanics of Trading in Futures Markets (The Clearinghouse and Open Interest, Marking to Market and the Margin Account, Cash versus Actual Delivery)
* Futures Markets Strategies (Hedging and Speculation, Basis Risk and Hedging)
* The Determination of Futures Prices
* Forwards versus Futures Pricing
* Foreign Exchange Futures
* Interest Rate Futures