

LESSON 1**TEXT AND REFERENCE MATERIAL &
FIVE PARTS OF THE FINANCIAL SYSTEM****The Primary textbook for the course will be**

- “Money, Banking and Financial Markets” by Stephan G. Cecchetti
International Edition, McGraw Hill Publishers, ISBN 0-07-111565-X”

Reference books will be

- “The Economics of Money, Banking and Financial Markets”, by Fredrick S. Mishkin
7th Edition Addison Wesley Longman Publishers
- “Principles of Money, Banking and Financial Markets” by Lawrence S. Ritter, Willaim
L. Silber and Gregory F. Udell, Addison Wesley Longman Publishers

Course Contents

- **Money and the Financial System**
- Money and the Payments System
- Financial Instruments, Financial Markets, and Financial Institutions
- **Interest rate, financial instruments and financial markets**
- Future Value, Present Value and Interest Rates
- Understanding Risk
- Bonds, Pricing and Determination of Interest Rates
- The Risk and Term Structure of Interest Rates
- Stocks, Stock Markets and Market Efficiency
- **Financial Institutions**
- Economics of Financial Intermediation
- Depository Institutions: Banks and bank Management
- Financial Industry Structure
- Regulating the financial system
- **Central Banks, Monetary Policy and Financial stability**
- Structure of central banks
- Balance sheet and Money Supply process
- Monetary policy
- Exchange rate policy
- **Modern Monetary Economics**
- Money growth and Money Demand
- Aggregate demand
- Business Cycle
- Output and inflation in the short run
- **Money and Banking in Islam**
- Monetary and financial policy and structure for an Interest-free economy
- Islamic Banking in the contemporary world

Five Parts of the Financial System

- Money
- Financial Instruments
- Financial Markets
- Financial Institutions
- Central Banks

1. Money

- To pay for purchases
- To store wealth
- Evolved from gold and silver coins to paper money to today's electronic funds transfers
- Traditional Paycheck system vs. ATM Withdrawals and Mailed transactions vs. E-banking

2. Financial Instruments

- To transfer wealth from savers to borrowers
- To transfer risk to those best equipped to bear it.
- Once investing was an activity reserved for the wealthy
- Costly individual stock transactions through stockbrokers
- Information collection was not so easy
- Now, small investors have the opportunity to purchase shares in “mutual funds.”

3. Financial Markets

- To buy and sell financial instruments quickly and cheaply
- Evolved from coffeehouses to trading places (Stock exchanges) to electronic networks
- Transactions are much more cheaper now
- Markets offer a broader array of financial instruments than were available even 50 years ago

4. Financial Institutions

- Provide access to financial markets
- Banks evolved from Vaults and developed into deposits- and loans-agency
- Today's banks are more like financial supermarkets offering a huge assortment of financial products and services for sale.
- Access to financial markets
- Insurance
- Home- and car-loans
- Consumer credit
- Investment advice

5. Central Banks

- Monitors financial Institutions
- Stabilizes the Economy
- Initiated by Monarchs to finance the wars
- The govt. treasuries have evolved into the modern central bank
- Control the availability of money and credit in such a way as to ensure
- Low inflation,
- High growth, and
- The stability of the financial system
- State Bank of Pakistan www.sbp.org.pk

Summary**Five Parts of the Financial System**

- Money
- Financial Instruments
- Financial Markets
- Financial Institutions

- Central Banks