UNIVERSITY OF SUNDERLAND

SUNDERLAND BUSINESS SCHOOL

APC313 FINANCIAL MARKETS

ASSIGNMENT Hand in date: 1st Dec 2017

Knowledge:

K1. Critical understanding of the operation of financial markets and an advanced understanding of their importance.

K2. Critical understanding of key theories and models of financial markets including efficient market hypothesis, and understand key implications.

K3. Critical understanding of the operations of and efficiency of financial markets.

Skills:

S1. The ability to identify and collect appropriate financial data and indices including share prices to carry out analysis of operations and efficiency of financial markets.

Learning outcomes:

The *assignment* covers all module learning outcomes.

Answer ALL the following questions. All sections are compulsory.

For each one of the questions below provide a clear and concise answer.

(800) 1. With reference to theories and concepts discussed within this unit critically evaluate the importance of regulation in financial markets.

(20 marks)

- **To elaborate/explain on the necessity of regulation**

  - Definition of regulation

Introduction can be done in Appendics

Stock Price go up↑, ↓ or not possible

Appendix must support assignment

- Issues of Adverse Selection (with examples)
- Issues of Moral Hazard (with examples)
- Regulation as a 'public good'

- To discuss merits of regulation i.e. level playing field, benefits versus costs analysis,
- To discuss demerits of regulation
  - Exclusive memberships that advantage certain entities/individuals etc
- Market contagion or market failure as a consequence of lack of regulation (scandal)
  - To cite examples of market failure
- Importance of Basel Accord
- Other current issues in terms of how regulations are changing and being shaped, i.e. cyber security, disruptive technological advancements Technology
- The essay must demonstrate

(800)

2. The existence of capital and money markets in developing as well as advanced economies are necessary, Discuss and explain the co-existence of these components of the financial markets. (20 marks)

How are capital is raise by this market

give an example

- Discuss the importance of both markets in terms of their operations and activities in complementing the an economy
  - In terms of providing a platform where capital can be raised amongst the have not's (deficit units)
  - Fairer competition
  - Reduction in transaction costs
  - The complementary relationship between these two forms of markets
  - The necessity for segregation of markets with reference to financial instruments being traded within these markets
  - Any other relevant points outside of the subject guide
  - Marks to be awarded for examples cited.

Frame works, models, flow chart

Big (1600)

3. The Efficient Market Hypothesis postulates that financial markets are efficient, critically evaluate this hypothesis with reference to financial data present in a stock market of your choice. (40 marks)

- Answers must draw out the concept of informational efficiency is but a notion
  - Answers should incorporate financial data such as share prices of a number of companies within an industry
  - Evidence for and against this hypothesis, this can be done with reference to the financial data collected

    - Debate whether
  - To include evidence that disclaim/refute this hypothesis
    - Calendar effect
    - Event Studies
    - Behavioural Finance (Good answers would have this present)

- **Alternative concepts in terms of chartism i.e. technical analysis**

4. Distinguish between spot and forward foreign exchange rates and with reference to the operations of spot and forward foreign exchange markets explain how each rate might be determined in practice. (800)
(20 marks)

- **Highlight the differences between spot and forward exchange rates via formal definitions**
- **Fundamental or economic variables that determine exchange rates**
    - **Wages**
    - **Unemployment**
    - **Policy rates i.e. interest rates**
    - **Inflation**
    - **GDP**
- **Money supply and demand for other currencies (can also be explained via policy rate changes)**
- **Covered interest arbitrage**
- **Bretton Woods and currency volatility**

Further details:

This assignment contributes 100% to the final assessment mark for this course. You should limit your answers to 3500-4000 words.

Please note that the University policy on cheating collusion and plagiarism will be applied to this piece of work.

Other Marking Guide Criteria:

Marks will be awarded with respect to the following assessment criteria.

- Evidence of background reading and relevance of the material to the question posed.
- Appropriate use of Harvard referencing system.
- Depth of analysis based on relevant theoretical and empirical literature and financial data analysis.
- Appropriate conclusion based on relevant evidence provided.