

Last Lecture. Institutions. Summary of material.

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Plan of Lecture

- Institutions
 - What do we mean by institutions
 - Their importance
 - Development and evolution
- Summary of Fin 319
[through connection with Financial Institutions]
 - Major Features of current institutions
 - Bottlenecks of current institutions
- Conventional Summary of Fin 319

Importance of Institutions

- Institutions? What is that?
 - Economic and political structures affecting financial system
 - Rules of the game & the entities implementing these rules
- Importance of Institutions \equiv Importance of the rules of the game

How Institutions emerge and develop?

--- Painfully: as children

- As a response to economic needs
[First, demand comes, and then supply]
- Through trial and error
- Institutions develop gradually:
[overnight? Never!]
[but sometimes: dismantled overnight]
(why?)

Major features of current institutions

- Increased correlation in returns & increased probability of crisis
- Globalization & Segmentation
- Increased Technical Sophistication
[without appropriate adjustment
of the rules of the game] (so far)

Bottlenecks of Modern Institutions

- Enforcement system
- Regulation and taxation of derivatives
- Internet & Financial system:
How reliable our information is?
How to process the `informational paradise`?
- Financial infrastructure in LDCs

Finance 319 Summary (I)

- Introduction and Overview of the International Financial Markets
[Levich, Ch. 1 & 2]
- Market Structure and Institutions
[Levich, Ch. 3]
- Parity Conditions
[Levich, Ch. 4 & 5]
- Exchange Rate Determination and Market Efficiency
[Levich, Ch. 6 & 7]

Finance 319 Summary (II)

- Offshore and Onshore Markets
[Levich, Ch. 9 & 10]
- Crisis of Financial System
[LTCM, Mexico, Asia, Russia]
- Financial Derivatives
[Levich, Ch. 11 – 13]
- Financial Portfolios
[Levich, Ch. 14 – 15]
- **Regulatory issues**
[Levich, Ch. 17]

Main Points I

- Modern financial markets are global
- Regulatory, tax and monetary authorities have to account for international [not only for national] consequences of their decisions
- Information is crucial
- Tension of national and international interests
[always existed, exists now and will persist]

Main Points II

- Know your competitive advantage
[do not try to excel in everything]
- Markets are more volatile than they were in the past 50 years:
- Conquer them by understanding them
[do not try to over smart them:
it is good enough to understand them]

Summary

- Institutions are the key for functioning of economy & financial system
- Bottlenecks are
 - Result of technological change [& political]
 - Resolved through altering of the rules of the game
 - Current bottlenecks
 - enforcement [international & in LDC]
 - derivative securities: regulation & pricing
 - financial infrastructure & internet
- Summary of Summary?

What is Next?

- Are you happy the semester is almost over?
- Happy Summer
- Happy Next Job / Summer Job!
- Happy Final Exam!!!
- And Have a Whole Happy Millennium!