UNIVERSITY OF MANAGEMENT AND ECONOMICS

APPROVED BY
THE STUDY COMMISSION
Minutes No. 02-12-2026-15
as of 27th August 2026

ECONOMICS OF FINANCIAL SYSTEMS

Course code	*ECO140*
Compulsory in the programmes	*Economics and Data Analytics, Finance*
Level of studies	*Undergraduate*
Number of credits	*6 ECTS (48 in-class hours + 2 consultation hours + 2 exam hours, 110 individual work hours)*
Course coordinator (title and name)	*Eglė Džiugytė*
Prerequisites	*Principles of Finance; Financial Markets and Institutions*
Language of instruction	*English*

THE AIM OF THE COURSE:

This course provides a rigorous introduction to the economics of financial systems, designed for students with foundational knowledge in economics and finance. Drawing on Mishkin's Economics of Money, Banking, and Financial Markets (13th edition), the course examines how financial markets and institutions function, how they interact with the broader economy, and how they are shaped by regulation and policy. Students will develop the analytical tools needed to understand the role of financial intermediaries, the behavior of interest rates, the mechanics of banking, and the functioning of central banks. Upon completion, students will be able to analyze real-world financial phenomena, evaluate regulatory frameworks, and apply financial economics thinking to contemporary challenges.

MAPPING OF COURSE LEVEL LEARNING OUTCOMES (OBJECTIVES) WITH DEGREE LEVEL LEARNING OBJECTIVES, ASSESMENT AND TEACHING METHODS

Course Level Learning Outcomes (CLOs)	Assessment Methods	Teaching Methods
CLO1. Understand the structure and functions of financial systems and key financial markets	Midterm exam, Final exam	Lectures, seminars, individual study
CLO2. Analyze the determinants of interest rates and the term structure of interest rates	Midterm exam, Final exam	Lectures, seminars, individual study
CLO3. Evaluate the role of financial intermediaries and banking institutions in the economy	Midterm exam, Final exam	Lectures, seminars, individual study
CLO4. Assess the principles of bank management, regulation, and supervision	Midterm exam, Final exam	Lectures, seminars, individual study
CLO5. Understand the role and instruments of central banking and monetary policy	Final exam	Lectures, seminars, individual study
CLO6. Relate theoretical frameworks to current financial system developments and crises	Group analysis	Seminars, group study, individual study
CLO7. Develop skills in financial research, analysis, and professional communication	Group analysis	Seminars, group study, individual study

ACADEMIC HONESTY AND INTEGRITY

The ISM University of Management and Economics Code of Ethics, including provisions on cheating and plagiarism, is fully applicable to this course and will be strictly enforced. Academic dishonesty can and will lead to a report to the ISM Committee of Ethics. Students are reminded that they are expected to maintain the same standards of academic honesty and integrity in all learning settings, including remote and hybrid environments.

COURSE OUTLINE

Topic	**In-class hours**	**Readings (Mishkin, 13th ed.)**
PART I. INTRODUCTION TO FINANCIAL MARKETS AND INTEREST RATES		
Topic 1. Why Study Financial Markets and Institutions? Overview of the financial system; functions of financial markets; financial intermediaries; role of money.	**4**	*Ch. 1 & 2*
Topic 2. What is Money? Meaning and functions of money; evolution of the payments system; money supply measurement.	**4**	*Ch. 3*
PART II. INTEREST RATES: DETERMINATION AND STRUCTURE		
Topic 3. Understanding Interest Rates. Measuring interest rates; present value; bond pricing; distinction between interest rates and returns; real vs. nominal rates.	**4**	*Ch. 4*
Topic 4. The Behavior of Interest Rates. Supply and demand in bond markets; liquidity preference framework; changes in equilibrium interest rates.	**4**	*Ch. 5*
Topic 5. The Risk and Term Structure of Interest Rates. Default risk, liquidity, and tax considerations; expectations theory; segmented markets theory; liquidity premium theory.	**4**	*Ch. 6*
Consultation before midterm exam | Midterm Exam (Topics 1–5)		
PART III. FINANCIAL INSTITUTIONS AND BANKING		
Topic 6. An Economic Analysis of Financial Structure. Transaction costs; asymmetric information; adverse selection; moral hazard; financial structure across countries.	**4**	*Ch. 8*
Topic 7. Banking and the Management of Financial Institutions. The bank balance sheet; basic banking operations; asset and liability management; credit risk; interest rate risk.	**4**	*Ch. 9*
PART IV. CENTRAL BANKING AND REGULATION		
Topic 8. Economic Analysis of Financial Regulation. Asymmetric information and regulation; government safety net; moral hazard from deposit insurance; bank regulation frameworks (Basel accords, EU framework).	**4**	*Ch. 10 & 11*
Topic 9. Central Banks and the Federal Reserve System (ECB focus). Origins and structure of central banks; ECB and European System of Central Banks; central bank independence.	**4**	*Ch. 12 & 13*
PART V. MONETARY POLICY TOOLS, STRATEGY, AND FINANCIAL CRISES		

Topic 10. The Money Supply Process and Monetary Policy Tools. The money multiplier; open market operations; reserve requirements; interest on reserves; unconventional monetary policy tools.	**4**	*Ch. 14 & 15*
Topic 11. Financial Crises in Advanced and Emerging Economies. Dynamics of financial crises; the 2007–2009 global financial crisis; crises in emerging markets; policy responses and lessons.	**4**	*Ch. 12 & 20*
CONSULTATIONS	2	
FINAL EXAM	2	
TOTAL	**52 hours**	

FINAL GRADE COMPOSITION

Type of assignment	**%**
Group Components	
Group Analysis	20
Individual Components	
Midterm exam (Topics 1–5)	40
Final exam (Topics 6–11)	40
Total:	**100**

DESCRIPTION AND GRADING CRITERIA OF EACH ASSIGNMENT

Midterm and Final Exams.

The midterm exam accounts for 40% and the final exam for 40% of the final grade. Both exams consist of analytical and problem-based questions drawing on material presented in lectures, seminars, and required readings. The midterm covers Parts I–II (Topics 1–5); the final exam covers Parts III–V (Topics 6–11). All theoretical frameworks, graphical models, and applied examples discussed in class are examinable.

Group Analysis.

Student groups will conduct an applied analysis of a financial system topic of current relevance (e.g., a specific financial market, a regulatory change, a recent financial crisis episode, or a central bank policy decision). The group task accounts for 20% of the final grade. Detailed guidelines, topic list, and evaluation criteria will be provided during the course. All group members share responsibility for ensuring compliance with ISM's academic integrity and AI use policies.

Assessment requirements, procedures, and any important updates may be communicated verbally during class. Students who miss a lecture where such information is provided remain responsible for complying with all requirements.

Bonus points. The instructor may award up to 1 extra grade points for active and constructive participation during lectures and seminars.

Precision of composite evaluations is retained up to 2 decimal places throughout the course; only the final grade is subject to rounding.

RETAKE POLICY

Students who receive a failing final grade are entitled to retake the exams, which will collectively comprise 80% of the final grade and cover all course topics. In case of retake, the original midterm and final exam results are annulled. The group analysis component is not subject to retake.

COURSE SPECIFIC AI GUIDELINES

All course participants must comply with the ISM University of Management and Economics Artificial Intelligence Policy published on the e-learning platform.

Group Analysis

Students may use AI tools to enhance their understanding of the topic, identify relevant theories, and find applicable examples. AI-generated information must be cross-verified with credible sources. AI tools may also be used to improve efficiency in working with literature sources or data analysis, as well as to improve the quality of written English, including grammar and style.

- AI-generated content is not considered a reliable academic source and should not be cited as such.
- The submitted paper must be written by the students. The inclusion of AI-generated text in the final submission is not permitted.
- Any use of AI tools beyond the purposes specified above must be aligned with the course instructor. More detailed guidance will be provided together with the group analysis instructions.
- Any AI assistance used must be properly attributed in accordance with ISM citation guidelines. Students must retain records of AI interactions until the end of the semester and make them available upon request.

Seminar Assignments and Exams

Students are expected to complete seminar tasks independently. AI tools may be used only for clarification or advice, unless otherwise specified in the assignment description or by the course instructor. In supervised or take-home exam settings, the use of AI is prohibited unless explicitly permitted by the instructor for a specific task.

REQUIRED READINGS

1. Mishkin, F. S. (2022). The Economics of Money, Banking, and Financial Markets. 13th edition. Pearson. Main textbook
2. Additional required readings will be announced during the course.

ADDITIONAL READINGS

1. Mishkin, F. S. & Eakins, S. G. (2018). Financial Markets and Institutions. 9th edition. Pearson.
2. Mankiw, N. G. (2019). Macroeconomics. 10th edition. New York: Macmillan International.
3. Blanchard, O., Amighini, A., & Giavazzi, F. (2017). Macroeconomics: A European Perspective. 3rd edition. Pearson.
4. Saunders, A. & Cornett, M. (2018). Financial Institutions Management: A Risk Management Approach. 9th edition. McGraw-Hill.
5. European Central Bank. Annual Reports and Economic Bulletins. Available at: www.ecb.europa.eu