

MGT 226: Foundation of Financial Systems

Full Marks: 100

Pass Marks: 35

Lecture Hours 150

Course Objectives

This course aims to equip students with the operational aspects of Nepalese financial system. This will develop the theoretical understanding and practical insight on financial instruments, the implication of interest rate and taxes in the supply and demand of funds in the financial markets, depository and non-depository financial institutions, ancillary financial services, operation of primary and secondary markets, regulation and regulatory authorities of the financial system and exchange rate system, foreign reserve and balance of payment.

Course Description

This course focuses on the conceptual and operational aspects of the different components of Nepalese financial system and covers the operational aspects of Nepalese financial system. The course covers concept and components of financial systems; financial instruments, interest rate and taxes, depository and non-depository financial institutions, ancillary financial services, operation of primary and secondary markets, acts and regulation related to the operation of the financial system and regulatory authorities, foreign exchange system, foreign reserve and balance of payments.

Unit 1: Introduction

LH 15

Concept of financial system; Components of financial system with reference to Nepalese financial system; Size of overall Nepalese financial system; Structure of Nepalese financial sector; Process of funds transfer from surplus units to saving units; Functions and role of financial intermediaries in the financial systems.

Unit 2: Financial Instruments and Interest Rates

LH 15

Concept of financial instruments; Functions and types of financial instruments: money market and capital market instruments, derivative securities, mutual fund units; Financial instruments available in Nepalese financial system; Loanable funds theory of interest: Supply and demand of loanable funds, equilibrium interest rate, factors affecting the interest rate; Components of interest rate; Terms structure of interest rate; Determination of interest rate in Nepalese financial markets; Base interest rate, interest rate spread, interest rate corridor; Implication of inflation and tax on interest rate

Unit 3: Depository Financial Institutions

LH 20

Concept of depository institutions; Fundamental functions of depository institutions; Classification of depository institutions in Nepal; Major products of depository institutions; Financial statements and major indicators of performance of depository institutions; Supervision by Nepal Rastra Bank: Onsite and offsite supervision and supervisory tools;

Saving and credit cooperatives in Nepal: role, structure and size and monitoring and regulation.

Unit 4: Non-Depository Financial Institutions

LH 20

Concept and types of non-depository institutions; Risk management industry: types of risk management industry, fundamentals of risk management industry, and role of risk management industry in the mobilization of saving and protection of individual and social wealth; Mutual fund industry in Nepal: types, size, and structure; Pension funds: Concept, fundamentals of provision for pension; Types and practices of pension fund in Nepal; Social welfare funds and other retirement schemes.

Unit 5: Ancillary Financial Services

LH 15

Investment banking industry: concept and functions, the structure of investment banking in Nepal; CDS & Clearing Ltd.: role and functions; Depository participants: concept and functions; Securities dealer and broker; Credit rating agencies: Concept, functions and credit rating agencies in Nepal; Deposit and Credit Guarantee Fund: role and functions; Credit Information Bureau of Nepal: its products and services.

Unit 6: Primary Market Operations

LH 15

Concept and role of primary markets; Legal provision regarding the issue of stocks and debenture in Nepal; Process of initial public offerings; Further public offering and rights issue; Application and allotment process of securities in Nepal

Unit 7: Secondary Market Operations

LH 15

Concept, functions and role of secondary markets; Buying and selling the securities in the secondary markets and settlement of the transactions; Stock market Index: NEPSE, float, sensitive index; Construction and interpretation of NEPSE Index; Market capitalization and market return.

Unit 8: Financial Regulations and Regulatory Authorities

LH 20

Major provisions of relevant Acts: NRB Act, Bank and Financial Institution Act, Foreign Exchange Act, Bank Offense Act and Anti-money Laundry Act; Insurance Act, and Securities Act; Role and power of Nepal Rastra Bank, Insurance Board, Nepal Securities Board as regulatory authorities

Unit 9: Exchange Rates, Foreign Reserve and Balance of Payment

LH 15

Exchange rate system in Nepal; Concept and components of foreign reserves; Concept of balance of payments and balance of trade; Structure of balance of payment of Nepal; Funds flows as foreign direct investment of multinational companies and international financial institutions in Nepal

References

Madura, J. *Financial institutions and markets*. Delhi: Cengage Learning India Private Limited.

Khan, M.Y. *Indian financial system*. Delhi: McGraw-Hill.

Pathak, B. V. *The Indian financial system: Markets, institutions and services*. New Delhi: Pearson Education India.

Nepal Rastra Bank, Nepal Rastra Bank, Financial Stability Reports.

Nepal Insurance Board, Annual Report

Nepal Rastra Bank Act, 2002.

Securities Act, 2063

Insurance Act, 1992