

# E-workbook: Financial System Edition 2

Introduces the Australian financial system by studying the flow of funds throughout the system and analysing the different markets and institutions through which those funds flow. Markets include the money market, the bond market, the share market, the interest rate market and the foreign exchange market. Institutions include banks, non-banks, managed funds, trusts and insurance companies.

This e-workbook focuses on developing a working knowledge of the different facets of the financial system and their roles and regulation within Australia.

## Introduction to the financial system

- Overview of the financing system
- Indirect financing
- Direct financing: primary markets
- Direct financing: secondary markets
- Direct financing: features
- Spot and forward rates

## Flow of funds, payments and savings

- Flow of funds
- The payments system
- EFTPOS, credit cards and cheques
- Savings and investment
- Surplus and deficit units

## Authorised deposit-taking institutions

- The role of financial institutions
- The main activities of banking
- Banking: retail and wholesale
- Market risk
- Building societies and credit unions
- Regulation of authorised deposit-taking institutions

## Long term savings institutions

- Managed funds and unit trusts
- The role of fund managers
- Superannuation and approved deposit funds
- Defined benefit vs defined contribution
- Insurance and other non-bank financial institutions

## The money market and monetary policy

- The role of the money market
- Money market dealing
- Money market securities
- Monetary policy
- The role of the Reserve Bank of Australia

## The bond market

- Bond market securities
- Bond market dealing (securitisation, credit ratings)
- Calculating bond prices
- Calculating bond yields
- Bond duration and convexity

## Interest rate market

- Explaining interest rate movements
- Real vs nominal rates of interest
- Spot and forward rates
- Term structure of interest rates
- Loanable funds theory
- Unbiased-expectations hypothesis
- Liquidity premium theory
- Interest rate hedging

## Corporations and the share market

- Equity and the share market
- SEATS, CHES
- Types of equity: ordinary and preference shares
- Sources of equity
- Initial public offerings

## Investors and the share market

- Australian Stock Exchange investment
- Risk: systematic vs unsystematic
- Relationship between risk and return
- Buying and selling shares
- Pricing and forecasting shares

## Foreign exchange markets

- The role of the foreign exchange market
- Foreign exchange dealing
- Explaining exchange rate movements
- Foreign exchange risk management
- Calculating forward and cross rates