

Chinese Financial Markets

Winter Intensive Course

Instructor:	Matthew Richardson
Classroom Location:	
Days & Hours:	9:00am-4:00pm: January 2 nd -18 th , 2018
Office:	
Office Phone:	212-998-0349
Office Hours:	
Email:	mrichar0@stern.nyu.edu

Course Descriptions:

This course introduces the institutions, instruments, and empirical regularities of Chinese financial markets and the role these markets play in the broader Chinese economy. The goal of the course is to provide students with a comprehensive understanding of Chinese financial markets. It focuses on current issues and debates about Chinese financial markets, including the Chinese banking system, RMB exchange rates, Chinese stock markets and bond markets, mutual fund and hedge fund industry, Chinese derivative markets and other important topics. The similarities and differences between Chinese financial markets and more developed markets will be highlighted.

The types of questions the course is intended to address are:

- How do Chinese banks perform? Are they really risky? Are they hurting the economy?
- What does shadow banking mean in China? How big is it? Does it endanger China's economic stability?
- Will China experience a real estate crisis?
- Are Chinese stocks overvalued? Why are Chinese stocks so volatile?
- Should China speed up the introduction of financial innovations in Chinese financial markets? What lessons should be learned from 2014-2016 stock market turbulence?
- What is the impact of convertible RMB on financial institutions, investors, non-financial corporations, and the rest of the world? Will RMB appreciate if convertible? Why? What's the impact on Chinese economic stability?

Textbook and Other Teaching Materials:

There is no textbook requirement for the course. Lecture notes, academic journal articles, research reports and articles in business magazines will be provided online before the course starts and throughout the semester. That said, because the course lasts just three weeks, there are four required readings prior to the beginning of the semester. The first one is the book, **Age of Ambition: Chasing Fortune, Truth, and Faith in New China**,

by Evan Osnos. It won the 2014 National Book Award in nonfiction and was a finalist for the 2015 Pulitzer Prize. While its focus is not 100% on the Chinese economy, and much less so on the Chinese financial system, the book gives the reader an understanding for modern day China and hopefully provides good motivation for the course. It is a light read and appropriate for the winter break. The second one is another book, **China's Economy: What Everyone Needs to Know**, by Arthur Kroeber. This book is 100% focused on the Chinese economy and provides a detailed overview of China's economic growth story. The book is a heavier read and has an academic bent to it, covering all aspects of China's economy. Arthur is scheduled to speak to the class via Skype. The third reading is a collection of articles from well-known newspapers/magazines on various aspects of the Chinese financial system, written this past year, i.e. during 2017. I take approximately one representative story per week. These readings are grouped into a single pdf file and give the reader some idea of the most up-to-date news on China's financial system. The final reading is an article by Wayne Morrison, **China's Economic Rise: History, Trends, Challenges, and Implications for the United States**. This article provides an overview of the current Chinese economy. There will be a short quiz the first class that covers these latter two readings.

Course Outline:

Session 1

Introduction to Course

A Brief Economic History of China

- i. *Ancient China*
- ii. *Communist , 1952-1978*
- iii. *Economic Reform, 1978 –*
- iv. *Cracks in the System*
 - a. *Chasing the Dragon*
 - b. *Demographics, Demographics, Demographics*
 - c. *Sources of Unrest*
 - i. *A Tale of Two Countries*
 - ii. *The Pollution Problem*
 - iii. *Corruption and the Economy*

Session 2

A Brief Economic History of China continued...

Overview of Chinese Financial System

- a. *Brief History*
- b. *Importance of Financial Systems*
- c. *Structure of Chinese Financial System*
- d. *Comparison with Other Financial Systems*
- e. *Challenges Facing Chinese Financial System*

Session 3

The Banking System of China

- a. *History*
- b. *The Big 4*
- c. *How Banks work*
- d. *Shadow Banking*
- e. *The Systemic Risk of Chinese Banks*

Session 4

Chinese Capital Markets: Stock, Bonds and Derivatives

- a. *History*
- b. *The Role of Capital Markets*
- c. *The Chinese Stock Market*
 - a. *How It Works*
 - b. *Comparison with Other Stock Markets*
 - c. *Why Is China's Stock Market So Volatile?*
 - d. *The Fall and Rise of the Stock Market 2014-2015*
- d. *The Chinese Bond Market*
 - a. *Growth of China's Bond Market*
 - b. *The Corporate and Government Sectors*
- e. *The Chinese Derivatives Market*
 - a. *The Role of Derivatives Market in a Modern Day Economy*
 - b. *The State of Derivatives Markets in China*

Session 5

Chinese Capital Markets: Stock, Bonds and Derivatives continued....

Chinese Asset Management System

- a. *A Primer on Asset Management*
- b. *The Size of the Asset Management Sector in China*
- c. *Alternative Investments in China*

China Foreign Exchange System

- a. *The Economics of Exchange Rates*
- b. *The History of RMB*
- c. *The Internationalization of RMB and Comparison with Other Currencies*

Session 6

- Financial Regulatory Environment in China*
- History of Financial Regulation in China*
 - Comparison to Other Countries*

Why China Needs Its Own Big Bang

Course in a Nutshell

Group Presentations

Required Reading:

Overview of Chinese Economy (Session 1):

PDF Newspaper/Magazine Articles from Fall, 2016
Morrison, Wayne, China's Economic Rise: History, Trends, Challenges, and Implications for the United States, 2015.

Overview of Chinese Financial System (Session 2):

Allen, Franklin, Gu, Xian, and Jun Qian, China's Financial System: Growth and Risk, 2014
Elliott, Douglas J. and Kai Yan, The Chinese Financial System: An Introduction Wand Overview, 2013.

Chinese Banking System (Session 3):

Michael, Martin, China's banking System: Issues for Congress, 2012, Congressional Research Service.
Goodstadt, Leo, China's Banking: How Reforms Lost Momentum, 2014, Hong Kong Institute for Monetary Research.
Sheng, Andrew, Edelman, Christian, Sheng, Cliff, and Jodie Hu, Bringing Light Upon the Shadow: A Review of the Chinese Shadow Banking Sector, 2015, Oliver Wyman.
Sekine, Eiichi, Reforming China's Financial Markets: The Problems of Shadow Banking and Non-performing Loans, 2015, Policy Research Institute, Ministry of Finance, Japan, Public Policy Review, Vol. 11, No. 1, 93-139.

Chinese Capital Markets (Session 4 & 5):

Allen, Franklin, Jun Qian, Susan Chenyu Shan, Julie Lei Zhu. 2015. Explaining the Disconnection between China's Economic Growth and Stock Market Performance.
Carpenter, Jennifer, Lou, Fangzhou and Robert Whitelaw, 2015, The Real Value of China's Stock Market.
Bendini, Roberto, 2015, Exceptional Measures: The Shanghai Stock Market Crash and the Future of the Chinese Economy, European Parliament Policy Department
Prasad, Eswar S., 2016, China's Efforts to Expand the International Use of the Renminbi, Cornell University and Brookings Institution.
Aizenman, Joshua, 2015, The Internationalization of the RMB, Capital Market Openness, and Financial Reforms in China, Bank of Finland.

Goldman Sachs Asset Management, 2015, China's Bond Market, Global Liquidity Management Research Report.

China Universal Asset Management, 2014, China's Bond Market, White Paper.

Citi OpenInvestor, 2015, China: The World's Best Opportunity for Asset Managers?, Research Report.

Course Requirements:

Teaching materials are drawn from several books, newspapers, and periodicals. There are assigned readings for each class. I expect students come to class prepared for the materials that will be covered that day. Course requirements include active class attendance, intensive reading, participation in group work, timely completion of assignments and critical presentation of course-related themes.

Grading Policy:

In-Class Quizzes	20%
Group Presentation	15%
Group Term Paper	25%
Final Exam	40%

Presentation and Term Paper:

The class will form groups of students. Potential paper topics will be offered to the class, but students are also free to choose their own, although the paper must be approved by the professor. Each group will likely consist of 2-3 students. At the last class, each group will be asked to present their topic to the class, and write a corresponding paper which is due at the end of the mini-semester. Each presentation takes 30 minutes, followed by 10 minutes of Q&A.

Quizzes and Exams:

- There will be a brief quiz at the beginning of each class that covers each classes' required reading.
- There will be a final exam that covers the material for the first five sessions. Examples of questions will be provided beforehand to give students appropriate preparation materials. The exam will cover the readings and course lectures.