

EC372 Economics of Bond and Derivatives Markets Term Paper Titles

Details of assessment and submission deadlines are contained in the Undergraduate Economics Handbook, available from room 5B.211. Be sure to read the sections on **A Guide to Good Practice in Assessed Work** and **Making the best of your essays, term papers and projects**. You should attempt **one** of the listed titles.

1. Identify the main forms of manipulation that occur in futures markets. Illustrate your answer with reference to an incident of alleged manipulation. What, if any, regulation should be imposed to deter the manipulation of futures markets?
[Your paper should begin by considering, in general terms, what it might mean to ‘manipulate’ a market, then proceed to describe the forms this takes in futures markets, focusing on ‘corners’ and ‘squeezes’. You may either integrate the incident of alleged manipulation within your general analysis or as a separate section. With regard to regulation, be careful to reflect on the objectives that regulation may seek to fulfil and the ways in which the regulation has, and could be, implemented, being careful to assess the merits (or otherwise) of the regulatory measures.]

References for getting started:

- (a) Williams, J. *Manipulation on trial: Economic analysis of the Hunt silver case*, especially chapters 3, 6.
- (b) Easterbrook, F. H. (1986) “Monopoly, Manipulation and the Regulation of Futures Markets” *Journal of Business*, 1986, vol. 59, No. 2, pp. S103–27.
- (c) Pirrong, S.C. (1995) “The Self-Regulation of Commodity Exchanges: The Case of Market Manipulation”, *Journal of Law and Economics*, vol. 38(1) pp. 141–206

2. Do Hedge Funds hedge? Explain and assess the strategies Hedge Funds adopt in order to fulfil their objectives. Illustrate your analysis with reference to **one** of: (i) the rescue of Long Term Capital Management (1998); (ii) the role of Hedge Funds in the financial crisis from 2007.
[Your paper should begin the principles of ‘hedging’, before going on to explore the variety of Hedge Fund strategies. Try to link the principles with the strategies, i.e. explain how (and the extent to which) the operation of Hedge Funds reflects the principles (or not). You should then apply your analysis to **one** of the two events listed. The focus should be on explanation and evaluation, not a mere report, i.e. link the description of the events to your analysis in the earlier part of your paper.]

References for getting started:

- (a) Coggan, P. *Guide to Hedge Funds*, Profile Books, 2008
- (b) Stulz, R. M. (2007) “Hedge Funds: Past Present and Future” *Journal of Economic Perspectives*, vol. 21(2), pp. 175–194.
- (c) Acharya, V. V. and M. Richardson (eds.) *Restoring Financial Stability: How to Repair a Failed System*, 2009, ch. 6

3. Explain how swap contracts may be used in strategies designed to control risks, and discuss the potential shortcomings of these contracts. Illustrate your analysis with respect to *one* of: (i) interest rate swaps, (ii) currency swaps, (iii) credit default swaps.

[Your paper should begin with a brief overview of the main characteristics of swaps, identifying underlying principles that are common among them. This should lead into an analysis of how swaps can be used to control various financial risks, including also a discussion of the potential shortcomings of swaps. Your analysis should then be applied to *one* of the listed sorts of swap contract, being careful to illustrate how the principles are reflected (or not) in the contracts you discuss.]

References for getting started:

- (a) Hull, J. C. *Fundamentals of Futures and Options Markets*, Prentice-Hall, 6th edition, 2008 chapter 7.
- (b) Acharya, V. V. and M. Richardson (eds.) *Restoring Financial Stability: How to Repair a Failed System*, 2009, chs. 10, 11
- (c) Stulz, R. (2010) "Credit Default Swaps and the Credit Crisis" *Journal of Economic Perspectives*, vol. 24(1), Winter 2010, pp. 73-92

4. Analyse the shortcomings of private sector institutions in performing the functions of financial intermediation in the crisis beginning in 2007, paying particular attention to the securitisation of debt. Hence assess the extent to which deficiencies in regulation can be held responsible for the severity of the crisis.

[In this context 'private sector institutions' comprise banks and other financial intermediaries, excluding central banks (except as regulators) and government-sponsored enterprises. Your paper should begin with a brief overview of the role of financial intermediaries in general, in order to identify those functions that arguably were deficient during the crisis. Take care to analyse the principles that explain why securitisation occurs, going beyond a mere description of the events that occurred. With regard to regulation, be careful to discuss the objectives of regulation, and thus the effectiveness of regulatory measures in fulfilling their objectives.]

References for getting started:

- (a) Acharya, V. V. and M. Richardson (eds.) *Restoring Financial Stability: How to Repair a Failed System*, 2009, chs 1, 2, 5
- (b) Coval, J., J. Jurek and E. Stafford (2009) "The Economics of Structured Finance", *Journal of Economic Perspectives*, vol. 23(1), pp. 3-25
- (c) Acharya, V. V., P. Schabl and G. Suarez (2010) "Securitization without risk transfer", *NBER Working Paper Series Working Paper 15730*, February 2010, (available online from the NBER, if you access via the Library website)
- (d) Gorton, G. and A. Metrick (2010) "Regulating the Shadow Banking System", *Brookings Papers on Economic Activity*, Fall 2010, pp. 261-312 (available online from the Brookings Institution, if you access via the Library website)
