

Chinese Financial Markets

Department: Fudan International Summer Session 2024

Course Code			
Course Title	Chinese Financial Markets		
Credit	2	Credit Hours	36+3 tutorial hours (one credit hour is 45 minutes)
Course Nature	<input type="checkbox"/> Specific General Education Courses <input type="checkbox"/> Core Courses <input checked="" type="checkbox"/> General Education Elective Courses <input type="checkbox"/> Basic Courses in General Discipline <input type="checkbox"/> Professional Compulsory Courses <input type="checkbox"/> Professional Elective Courses <input type="checkbox"/> Others		
Course Objectives	<ol style="list-style-type: none"> 1. Mastery: Students will acquire and demonstrate mastery of advanced and rigorous financial knowledge and analysis tools. 2. Practical Application: Students will be able to apply their specialist knowledge and skills to real-world problems, with a focus on China-specific applications of global best practices. 3. Global Perspective: Students will attain a global perspective on the finance industry working with faculty and industry leaders from around the world, both in the classroom and through study abroad. 4. Professionalism: Students will consistently demonstrate professional and ethical conduct as well as high-level communication, teamwork, leadership and problem-solving skills. 5. Responsibility: Students will work and conduct themselves in accordance with the highest sense of professional and social responsibility, aiming to have a positive impact on the industry and community. 		
Course Description	<p>China's economy ranked second worldwide for the past 12 years, while the country is accelerating the opening-up of its financial markets, including the foreign exchange and stock markets, as well as the fixed income market, to global investors.</p> <p>In the first part of this class, we are going to introduce some basic understanding of Chinese financial market with microstructure foundation. The competition among exchanges, development of trading algorithms, and design of robust market systems all requires combining the theory of market microstructure with an understanding of institutional detail of how financial markets work in practice. Liquidity, transaction costs, trading strategies, insider traders, short sellers, high-frequency trading, crashes, market fragmentation, circuit breakers, market design are topics of great interest to finance professors, market participants, policy makers, and sometimes even to the general public.</p>		

	<p>The second part of this course will focus on Chinese stock market, compared with developed stock markets. The general principles are applicable to all markets. By taking this course a student will have an opportunity to learn (1) how trading takes place in financial markets; (2) how economic theories relate to this trading; (3) how legal, regulatory, and ethical considerations shape the trading process.</p>
<p>Course Requirements: Pre-requisite: No</p>	
<p>Teaching Methods: Tutorial + Case</p>	
<p>Instructor's Academic Background: Sili ZHOU currently serves as Associate Professor in Finance at Faculty of Business Administration, University of Macau in Macau, China. Before joining the University of Macau, he was an Assistant Professor in Finance at the Fanghai International School of Finance (FISF) and School of Economics(SOE), Fudan University in Shanghai. I also joined APAEM at University of Macau.</p> <p>Professor Zhou's research interests include international finance, corporate finance and Chinese financial markets. His research has been published in leading academic journals including Journal of International Economics, Journal of the European Economic Association, Journal of Corporate Finance etc. His research is also widely featured in Wall Street Journal, UNIDO, Covid Economics, VoxChina, Fed, BOFIT etc.</p> <p>Professor Zhou obtained his Ph.D. degree in Business (Finance) from at Lee Kong Chian School of Business of Singapore Management University (SMU) in 2017, M.A. in Economics from Shanghai University of Finance and Economics in 2013 and B.A. in Economics from Zhongnan University of Economics and B.S. in Computer Science from Huazhong University of Science and Technology in 2011.</p>	
<p>Course Schedule</p> <p>Session 1-2: Trading as a Game: Basic</p> <p>Content: Brokers versus dealers; principal–agent problem; market makers; bid and ask prices; limit orders and market orders; dealer markets and organized exchanges; network externalities; limit orders and market orders; tick size; fixed commissions and commission deregulation; tick size; dealer games; Treynor model of bid-ask spread.</p> <p>Readings: CB Part I, Chapter 1-5, pp. 1-39 and Part II, Chapters 6-8, pp. 40-66</p> <p>Key papers to discuss:</p> <ol style="list-style-type: none"> 1. Jack Treynor. The only game in town. <i>Financial Analysts Journal</i>, 51(1):81–83, 1995. https://www.tandfonline.com/doi/abs/10.2469/faj.v51.n1.1862 2. Maureen, O. (2001). Overview: market structure issues in market liquidity. BIS 	

<https://www.bis.org/publ/bppdf/bispap02.pdf#page=11>

Session 3-4: Information and Efficiency: Insiders and Short Sellers

Content: public versus private information; market efficiency; adverse selection; noise trading; insider trading; return volatility; market liquidity; market depth; inventory models; perfect competition; imperfect competition; short sellers.

Reading: CB Part III, Chapter 9-12, pp. 67-110.

Key papers to discuss:

1. Fischer Black. "Noise". The Journal of Finance, 41(3):529–543, 1986.
<https://onlinelibrary.wiley.com/doi/full/10.1111/j.1540-6261.1986.tb04513.x>
2. Mass, Qian, Xu, and Zhang, Competition of the Informed: Does the Presence of Short Sellers Affect Insider Selling? Journal of Financial Economics, 2015
<https://doi.org/10.1016/j.jfineco.2015.08.004>
3. Hu, D., Jones, C. M., Zhang, V., & Zhang, X. (2021). The rise of reddit: How social media affects retail investors and short-sellers' roles in price discovery. Available at SSRN 3807655.
https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3807655

Session 5-6: High-frequency Trading and Liquidity

Content: Liquidity; high-frequency traders; realized volatility

Readings: CB Part IV, Chapters 13–14, pp. 111–140 and Part V, Chapter 19, pp. 156-168.

Key papers to discuss:

1. Lawrence Harris, What to do about high-frequency trading? Financial Analysts Journal. 2013
<https://doi.org/10.2469/faj.v69.n2.6>
2. Goyenko R Y, Holden C W, Trzcinka C A. Do liquidity measures measure liquidity?[J]. Journal of financial Economics, 2009, 92(2): 153-181.
<https://doi.org/10.1016/j.jfineco.2008.06.002>
3. Hasbrouck, J. and Saar, G., 2013. Low-latency trading. Journal of Financial Markets, 16(4), pp.646-679.
<https://doi.org/10.1016/j.finmar.2013.05.003>
4. Hasbrouck, J., 2018. High-frequency quoting: Short-term volatility in bids and offers. Journal of Financial and Quantitative Analysis, 53(2), pp.613-641.
<https://doi.org/10.1017/S0022109017001053>

Session 7-8: Chinese Stock Market Development: Micro Evidence

Content: Retail investor; price limits; trading halts

Key Papers to Discuss:

1. Frydman, Cary, and Baolian Wang. "The impact of salience on investor behavior: Evidence from a natural experiment." The Journal of Finance 75, no. 1 (2020): 229-276.
<https://onlinelibrary.wiley.com/doi/full/10.1111/jofi.12851>

2. Chen, Ting, Zhenyu Gao, Jibao He, Wenxi Jiang, and Wei Xiong. "Daily price limits and destructive market behavior." *Journal of econometrics* 208, no. 1 (2019): 249-264.
<https://doi.org/10.1016/j.jeconom.2018.09.014>
3. Allen, F., Qian, J., Shan, C., & Zhu, J. (2020). Dissecting the long-term performance of the Chinese stock market. Available at SSRN 2880021.
https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2880021

Session 9-10: Chinese Stock Market Development: International Evidence

Content: Stock market liberalization; market segmentation; capital control

Key Papers to Discuss:

1. Ma, C., Rogers, J. H., & Zhou, S. (2020). The effect of the China Connect.
https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3764756

Session 11-12: New Challenging in Chinese Stock Market and Group Presentation

Content: price manipulation, market crash, smooth trading, spoofing, layering

Key Papers to Discuss:

1. Bian, Jiangze, Zhi Da, Zhiguo He, Dong Lou, Kelly Shue, and Hao Zhou. "Margin Trading and Leverage Management." *University of Chicago, Becker Friedman Institute for Economics Working Paper* 2021-29 (2021).
https://papers.ssrn.com/sol3/papers.cfm?abstract_id=380187

The design of class discussion or exercise, practice, experience and so on:

Recommended Reading

1. Chinese Stock Market: Micro Evidence

1. Jia, C., Wang, Y. and Xiong, W., 2017. Market segmentation and differential reactions of local and foreign investors to analyst recommendations. *The Review of Financial Studies*, 30(9), pp.2972-3008.
2. Wang, Baolian. "Ranking and salience." *Available at SSRN* 2922350 (2017).

2. Chinese Stock Market: International Evidence

1. Chan, K., Menkveld, A. J., & Yang, Z. (2008). Information asymmetry and asset prices: Evidence from the China foreign share discount. *The Journal of Finance*, 63(1), 159-196.
2. Carpenter, J.N. and Whitelaw, R.F., 2017. The development of China's stock market and stakes for the global economy
3. Fernald, J. and Rogers, J.H., 2002. Puzzles in the Chinese stock market. *Review of Economics and Statistics*, 84(3), pp.416-432.

3. New Challenging in Chinese Stock Market

1. Xiong, Wei, and Jialin Yu. "The Chinese warrants bubble." *American Economic Review* 101, no. 6 (2011): 2723-53.
2. Albert S. Kyle and S. Viswanathan, How to define illegal price manipulation? *American Economic Review Papers and Proceedings*, 98 (2), 274-279, 2008.
3. Kyle, Albert S., Anna A. Obizhaeva, and Yajun Wang. "Smooth trading with overconfidence and market power." *The Review of Economic Studies* 85, no. 1 (2018): 611-662.

Grading & Evaluation:

1. Attendance & Participation 10%
Class attendance and participation are required. Before each class session, students are encouraged to read the assigned material.
2. Assignment/Case 30%
Cases and Problem Sets are graded and allocated a weight of 30% in the total grade. Late submission will be at large discount. You can search on Internet and but everyone must write up their own solution.
3. Term Project and Debate 50%
Term Project and Debate accounts for 50% of the total grade. Each team will be assigned to form a debate at the final class. After the debate, each team is going to submit a written report.
4. Peer Review 10%
Peer Review accounts for 10% of the total grade. Before the end of the course, students are required to submit the evaluation of your classmates.

Teaching Materials & References (Including Author, Title, Publisher and Publishing time):

The main course book (CB) for this course, but it is mainly for the U.S. market.

1. Hasbrouck, Joel. "Securities Trading: Principles and Procedures." (2016). This 201-page PDF file is like a textbook for this course:
<http://pages.stern.nyu.edu/~jhasbrou/TeachingMaterials/STPPms12a.pdf>

These two books are good references for those interested in market microstructure:

2. Larry Harris. *Trading and Exchanges: Market Microstructure for Practitioners*. Oxford University Press, USA, 2002.
This book contains a wealth of institutional details, descriptions of issues, and discussion of microstructure at the level of an advanced layman.
3. Thierry Foucault, Marco Pagano, and Ailsa Roell. *Market Liquidity: Theory, Evidence, and Policy*. Oxford University Press, 2013.
This book is a good graduate level textbook. It is not necessary for the course to have it, but students can find discussions of most topics in this course.

Other Textbooks:

1. Mariene Amstad, Guofeng Sun and Wei Xiong, The Handbook of China's Financial System, 2020

<https://www.chinafinancialsystem.com/chapters/>

Bedtime Readings: Microstructure is fun. If you would like to learn more about finance and market microstructure, here are some good books. None of these are required readings for this course. While all of the required readings for this course are free, you may have to pay for these books. These are light bedtime readings about markets, including ethical issues:

1. Lewis, Michael, 2015. Flash Boys: Cracking the Money Code. Penguin Books.
2. Lewis, Michael. Liar's poker. WW Norton & Company, 2010.
3. Schwed, Fred, 1995. Where are the Customers' Yachts? or A Good Hard Look at Wall Street. John Wiley and Sons.