



MA in International Business

Management of International Financial Institutions

2012/2013 academic year

Module Teacher: Dr. Gregory Perelman
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Academic hours: 32

Credits: (stated by the programme administrator)

Office hours: 17:30 before every weekday class session and by appointment

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1. Summary

This course is designed to introduce students to the functioning of international financial institutions with special focus on the operations of major international banks. The course covers issues related to bank risk management and will concentrate on credit, interest, and capital adequacy risk. Many topics in this course will be discussed in light of the recent financial crisis and, consequently, the functions of the central banks (we will concentrate on the Federal Reserve Bank in the U.S., the European Central Bank, the Bank of England, and the Bank of Japan) and their action during the crisis will be reviewed as well. It is assumed that the students have good working knowledge of the basic theoretical and practical concepts of economics, corporate finance, and accounting. The course is intended not only for those interested in careers within international financial institutions, but also for those who wish to extend their institutional and industry specific knowledge. The emphasis of the course is on practical application and, therefore, case discussions will take most of in-class time.

2. Aims

The goal of the course is to leverage students' prior studies in economics, finance, and accounting to investigate in depth how international financial institutions operate and manage their key risks.

3. Intended Learning Outcomes

On successful completion of the module, students will be able to:

- Explain the most important reasons for existence of financial intermediaries
- Analyze financial performance of commercial banks
- Argue for (or against) the existence of deposit insurance
- Define the role of major central banks (U.S., Europe, Japan) and explain their functions
- Prepare and evaluate commercial loan requests and price traditional bank products
- Identify key risks facing international financial institutions and apply some of the risk management strategies, including the management of capital requirements (Basel international agreement)
- Understand U.S. shadow banking system and its role in the recent financial crisis

4. Teaching Strategy

Learning activity	Academic hours
Face-to-face class learning	32
Study group	18
Self-supported study including:	20
<i>Required pre-readings, preparation for in-class forms of assessment</i>	20
Total	70

5. Reading Materials

Required reading materials are listed for each session in Section 7 and will be distributed in class or over the class web page. Additional (recommended) reading sources are listed on the class web page.

Recommended textbooks (any of these will be good for background reading on banking):

-Mishkin F.S. and Eakins S.G., Financial Markets and Institutions, 6th ed., Peason, 2009.

-Greenbaum S. I. and Thakor A. V., Contemporary Financial Intermediation, 2nd ed, Academic Press Advanced Finance. 2007.

-Saunders, A. and Cornett, M.M. Financial Institutions Management: A Risk Management Approach. Irwin McGraw-Hill, 6th ed., 2008.

6. Assessment strategy

Grading Policies:

Five case studies (four graded)	40%	Class participation	10%
Quizzes	10%	Final exam	40%

Case studies (group):

We will discuss five cases in class and you, as part of a group of 4-5 students, will prepare a 3-4 page summary (write-up) of your analysis, where you address the questions posted on the class website for each case. The write up is due (by e-mail) before the start of the sessions where the case is discussed. You will submit four write-ups, which will be graded. For the Meeting 4 (see section 7 for details) you have a choice of writing your analysis for either Banc One case or for the Basel III case. You still need to read all five cases and take part in the class discussions.

A few more comments: no detailed background is needed in the write up – a few lines will be sufficient. At the same time, do not assume that the reader knows every number in the case. The write up is a stand-alone document, it should state major problems or opportunities facing the decision-maker, list alternative courses of actions and come up with a specific recommendations. It is important to make a decision given the available information provided within the case. You are welcome to use outside sources, but, as in real life, you will never have complete information and unlimited time to make your decisions. If you make any assumptions, clearly state them. The write-up should be professional and addressed to the CEO/CFO as an internal or consulting report. Write in complete and grammatically correct sentences. Avoid bulleted presentations.

Class participation:

This course is structured as a seminar, which means you must come prepared for class discussions and actively participate in class to receive credit. This also means that unexcused absences will count against your final grade. If you expect to miss a class for any reason, send me an e-mail beforehand. In class discussions, entire groups may be asked to take stands and express their views on the case questions. At other times, individual students will be asked to do the same. Students can expect a mix of all approaches. Questions and discussions are encouraged throughout the class.

Exams:

We will have several (unannounced) quizzes and a final examination. You can use calculator and one sheet of paper (both sides) with your OWN notes during examination. No makeup quizzes or final exam will be given.

7. Face-to-face learning schedule

	Content
Session 1	<p>Topics: raison d'être of financial intermediaries</p> <ul style="list-style-type: none"> • Maturity, liquidity and risk transformation • Information asymmetry - adverse selection and moral hazard; screening and monitoring • Analysis of bank financial statements and bank financial performance.
	<p>Pre-reading: Textbook (any from the recommended list) - chapters introducing banking industry</p>
	<p>In-class activity: introductory lecture covering the intermediation activities of commercial banks.</p>
	<p>Homework 1 (group assignment): due before class session 2 (via e-mail)</p> <p>Based on HBS Case: <i>The U.S. Banking Panic of 1933 and Federal Deposit Insurance</i>, prepare a group write up (3-4 pages) - see questions posted on the class website</p>
Session 2a	<p>Topics: Depository institutions: history of banks and bank regulations in the U.S.; deposit insurance in 1933 and its spread around the world;</p>
	<p>Pre-reading: HBS Case: <i>The U.S. Banking Panic of 1933 and Federal Deposit Insurance</i>.</p>
	<p>In-class activity: Case 1 discussion: deposit insurance</p>
	<p>Homework 2: Due before next class session (via e-mail)</p> <p>Estimate monetary policy discount rate given local (Russian) macro data</p>
Session 2b	<p>Topics: Central banking</p> <ul style="list-style-type: none"> • Discussion of the functions of the Federal Reserve Bank (U.S.), ECB (Europe), BoE (U.K.), and BoJ (Japan) • Monetary policy and Taylor rule
	<p>Pre-reading:</p> <ul style="list-style-type: none"> • HBS Note: <i>Steering Monetary Policy Through Unprecedented Crises, 2011</i> • The Federal Reserve System: Purposes and functions (chapters 1-3 are the most relevant, read other chapters if you are interested in the operational aspects of the FED) http://www.federalreserve.gov/pf/pf.htm
	<p>In-class activity: Lecture and discussion</p>
	<p>Homework 3 (group assignment): Due before next class session (via e-mail)</p> <p>Prepare a group write up for <i>Santa Fe Trading Company</i> case (questions provided at the end of the case text - see reading link on class web page). For this case, <u>do not</u> prepare a long write up. The main focus of this case is on financial analysis. Make sure that you address all of the questions.</p>
Session 3	<p>Topic: Practical applications - extending credit to businesses</p> <ul style="list-style-type: none"> • Lending policies and procedures • Lending to businesses • Loan pricing <p>Additional topics: consumer loans, credit cards and real estate lending</p>

	<p>Pre-reading: Lending case Santa Fe Trading Company (Excel spreadsheets posted online) Rose, Peter S. and Hudgins Sylvia C., Bank Management & Financial Services. McGraw Hill, 7th Edition, 2008. Chapters 16-18, pp. 511-612</p>
	<p>In-class activity: Case 2 discussion: commercial lending</p>
	<p>Homework 4 (group assignment): Due before next class session (via e-mail)</p> <p>1. Based on HBS Case: <i>Banc One Corporation. Asset and Liability</i>, prepare group write up (3-4 pages) - see questions posted on the class website</p>
Session 4a	<p>Topic: Risk management in commercial banks</p> <ul style="list-style-type: none"> • Credit risk and interest rate risk
	<p>Pre-reading: HBS Case: Banc One Corporation. Asset and Liability Management. Updated 2008.</p>
	<p>In-class activity: Case 3 discussion: Banc One Corporation (swaps in asset/liability management)</p>
	<p>Homework 5 (group assignment): Due before next class session (via e-mail) Prepare a group write up on HBS Case <i>Deferred Tax Assets in Basel III: Lessons from Japan</i> - see questions posted on the class website</p>
Session 4b	<p>Basel - international agreements on bank capital management</p> <ul style="list-style-type: none"> • Historical development in bank capital management and discussion of Basel I, II, and III
	<p>Pre-reading: HBS Case <i>Deferred Tax Assets in Basel III: Lessons from Japan</i> The Supervisory Capital Assessment Program: Overview of Results, <i>Federal Reserve Board of Governors</i>. May 9, 2009.</p>
	<p>In-class activity: Case 4 discussion on Basel Agreement</p>
	<p>Homework 6 (group assignment): Due before next class session (via e-mail) Prepare your group write up on HBS case <i>The Tip of the Iceberg: JP Morgan Chase and Bear Stearns</i> - see questions posted on the class website</p> <ul style="list-style-type: none"> • Submit (group or individually) any questions you might have about the course; they will be addressed at the Q&A session
Session 5	<p>Topic: M&A in banking during crisis; course review and Q&A session</p> <p>Additional topics: shadow banking, financial crisis of 2007-2009 - timeline, major events, causes and consequences.</p>
	<p>Pre-reading: HBS Case: <i>The Tip of the Iceberg: JP Morgan Chase and Bear Stearns (A)</i>, 2009</p> <p>Gorton, Gary B. Questions and Answers about the Financial Crisis, February 2010. Prepared for the U.S. Financial Crisis Inquiry Commission.</p>
	<p>In-class activity: Case 5 discussion - Tip of the Iceberg: JP Morgan Chase and Bear Stearns</p>
	<p>Homework: Prepare for final exam</p>
Session 6	<p>Final Exam</p>
	<p>Pre-reading: Review course materials</p>
	<p>In-class activity: exam</p>
	<p>Homework: none</p>