

Santa Clara University
Leavey School of Business
FNCE 149: Financial Institutions and Services
Fall 2017

Instructor:	Gregory Perelman	Class Web site:	class posted on Camino
Class Meetings:	Tue/Thu, 3:50-5:30 pm	Contact e-mail:	gperelman@scu.edu
Office:	321T		
Office hours:	5:30-6:30 pm Tue/Thu and by appointment		

Course Description:

This course will analyze the main functions of financial institutions and review the recent developments in the financial services industry. We will examine the functions performed by incumbent players in the following segments: payment processing systems, extension of credit to businesses and consumers, money management, investment banking and securities trading; attention will then turn to new industry players within each segment - those companies that are using digital technologies and big data to disrupt traditional players' business models. Potential market size, product pricing and profitability of the new players will be evaluated.

It is assumed that students have good working knowledge of the basic theoretical and practical concepts of economics, accounting, and corporate finance. The course is intended not only for those interested in careers within financial institutions, but also for those who wish to extend their institutional and industry specific knowledge.

Prerequisites: FNCE 121 or 121S, and FNCE 124

Reading: there is no textbook for this course;

link to reading materials: <http://cb.hbsp.harvard.edu/cbmp/access/69608012>

Cases:

1. The U.S. Banking Panic of 1933 and Federal Deposit Insurance (HBS Case #9-799-077: Rev. January 23, 2008).
2. Santa Fe Trading Company (link on class website)
3. Lending Club: Time to Join? (HBS Case #9-214-046), November 14, 2014
4. Betting on Failure: Profiting from Defaults on Subprime Mortgages (Case KEL880), Jan. 5, 2015
5. The Tip of the Iceberg: JP Morgan Chase and Bear Stearns (A), Nov. 21, 2011

Notes:

1. HBS, #9-602-153: Economics of Retail Banking Note, Rev. March 24, 2006
2. HBS #9-209-107: An Introduction to Consumer Credit. February 20, 2009.
3. HBS #9-291-026 Note on Bank Loans, Rev. October 29, 1993

Other reading materials will be distributed in class or over the class web page.

Course Format

Lectures, class discussions, problem solving and case studies.

Case analysis will involve building Excel models and conducting sensitivity analysis to assumptions in support of the final recommendation. Due to the labor-intensive nature of case preparation, it is strongly recommended that students work in groups to get ready for class.

Grading Policies:

Individual participation:	10%
Group cases:	40%
Quizzes:	15%
Final exam:	35%

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. 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 course.

Quizzes and final exam

We will have several quizzes during the course and a final exam (open book/notes). No makeup quizzes or exams will be given, except as required by university policy. The lowest score on the quizzes will be dropped in calculating your course grade.

Case Analysis (Groups)

In this class you will work with a team of 3-4 students on five case studies. For each case, every team must submit the following:

- a) *Before class*: 3-4 page write-up in Word document (excluding exhibits) where you address case questions posted on the class website; Excel spreadsheet (for some of the cases – see class website for details);
- b) *After class*: (in 1-2 days after case discussion) one-page summary of the in-class discussion (address any issues that you might have missed in the pre-class write-up);

A few more comments on the write ups: no detailed background of the case is needed – 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 and should state major problems or opportunities facing the decision-maker, list alternative courses of actions and come up with specific recommendations. It is important to make your decisions given the available information provided within the cases. 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 in the write ups.

All submitted files must follow naming conventions and include your name for individual work and team/case numbers for group submissions – more details are provided on the class website. Case grading will be based on both written submissions and on your group's participation in case discussions. The lowest score on the cases will be dropped in calculating the overall course grade.

Disabilities Resources

If you have a disability for which accommodations may be required in this class, please contact Disabilities Resources, Benson 216, <http://www.scu.edu/disabilities> as soon as possible to discuss your needs and register for accommodations with the University. If you have already arranged accommodations through Disabilities Resources, please discuss them with me during my office hours. Students who have medical needs related to pregnancy may also be eligible for accommodations.

While I am happy to assist you, I am unable to provide accommodations until I have received verification from Disabilities Resources. The Disabilities Resources office will work with students and faculty to arrange proctored exams for students whose accommodations include double time for exams and/or assisted technology. (Students with approved accommodations of time-and-a-half should talk with me as soon as possible). Disabilities Resources must be contacted in advance to schedule proctored examinations or to arrange other accommodations. The Disabilities Resources office would be grateful for advance notice of at least two weeks. For more information, you may contact Disabilities Resources at 408-554-4109.

COURSE SCHEDULE

Week	Topics, readings, and assignments
1 Sep. 19/21	<p>Review of financial institutions and their functions:</p> <ul style="list-style-type: none"> ✓ Functions of financial intermediaries: maturity, liquidity and risk transformation; information asymmetry (adverse selection and moral hazard); screening and monitoring; <p>Recommended reading: Akerlof, George A., "The Market for 'Lemons': Quality Uncertainty and the Market Mechanism." <i>Quarterly Journal of Economics</i>, August 1970, 488-500. <i>The Future of finance and the theory that underpins it</i>. London School of Economics, 2010. Chapter 1 – What do banks do?</p>
2 Sep 26/28	<p>History of the U.S. banking industry and the role of the FED:</p> <ul style="list-style-type: none"> ✓ historical review of U.S. banking industry ✓ deposit insurance: arguments for and against ✓ central banking: monetary policy and interest rates; <p>Case 1: <i>The U.S. Banking Panic of 1933 and Federal Deposit Insurance</i> Assignment: submit a write up where your group addresses all questions posted for this case on Camino</p> <p>Required readings:</p> <ul style="list-style-type: none"> • Money in the modern economy: an introduction. By Michael McLeay, Amar Radian and Ryland Thomas. • Money creation in the modern economy. By Michael McLeay, Amar Radia and Ryland Thomas. BoE Quarterly Bulletin, 2014 Q1 <p>Recommended reading: Bernanke, Ben, S. "Nonmonetary Effects of the Financial Crisis in the Propagation of the Great Depression," <i>The American Economic Review</i>. June 1983, 237-276.</p>
3 Oct 3/5	<p>Measuring financial performance of financial intermediaries;</p> <ul style="list-style-type: none"> • balance sheet and income statement analysis • Revenue and profit of key business components: <ul style="list-style-type: none"> ○ deposits and payments ○ lending ○ wealth management and other businesses • ROE decomposition analysis <p>Required reading:</p> <ul style="list-style-type: none"> • HBS, #9-602-153: Economics of Retail Banking Note, , Rev. March 24, 2006 • Bank funding costs: what are they, what determines them and why do they matter? Bank of England, Quarterly Bulletin, Q3, 2014
4 Oct 10/12	<p>Traditional lending and product pricing:</p> <ul style="list-style-type: none"> ✓ Current bank lending practices ✓ Pricing of traditional banking products ✓ Credit scoring <p>Case 2: <i>Santa Fe Trading Company</i> Assignment: submit group case write up where you address all questions listed at the end of the case;</p>

	<p>Required reading:</p> <ul style="list-style-type: none"> • HBS #9-291-026 Note on Bank Loans, Rev. October 29, 1993
5 Oct 17/19	<p>Innovations in lending and alternative finance</p> <ul style="list-style-type: none"> ✓ Big data and new loan underwriting techniques ✓ Marketplaces: Lending Club, Prosper, ✓ Alternative lenders: Kabbage, OnDeck; ✓ Economics of alternative lenders <p>Case 3: Lending Club: Time to Join? Assignment: submit a write up where you address questions posted on Camino; include Excel spreadsheet with your work; Suggested reading:</p>
6 Oct 24/26	<p>Payment function: from the bill of exchange to Visa/MasterCard to Bitcoin:</p> <ul style="list-style-type: none"> ✓ history: medieval fairs and bills of exchange, metallic money, gold standard ✓ economics of modern payment systems: checks in the U.S.; economics of credit cards, merchant services; ✓ key players and their financial performance: Visa, MasterCard, Discover, Amex ✓ key players: PayPal, Google Wallet, Apple Pay, Square, etc. ✓ bitcoin ✓ economics of challengers - estimating market potential and expected financial performance <p>Required reading:</p> <ul style="list-style-type: none"> • Innovations in payment technologies and the emergence of digital currencies. By Robleh Ali, John Barrdear, Roger Clews and James Southgate • The economics of digital currencies. By Robleh Ali, John Barrdear, Roger Clews and James Southgate
7 Oct 31/ Nov 2	<p>Investment and money management – history and innovations</p> <ul style="list-style-type: none"> ✓ history of financial instruments and stock exchanges (New York, London,) ✓ money management: mutual funds, retirement funds; ✓ speed trading: economics, efficiency and fairness; ✓ innovations in money management business ('robo advisors,' etc.) <p>Case 4: Betting on Failure: Profiting from Defaults on Subprime Mortgages (Case KEL880) Assignment: submit a write up where you address questions posted on Canvas; include Excel spreadsheet with your work;</p>
8 Nov 7/9	<p>Investment banks, money market mutual funds and the shadow banking system</p> <ul style="list-style-type: none"> ✓ securitization ✓ credit default swaps and other innovations in financial products ✓ innovation in finance vs. systemic risk (AIG story) ✓ TARP <p>Case 5: <i>The Tip of the Iceberg: JP Morgan Chase and Bear Stearns (A)</i>, 2009 Assignment: submit a write up where you address questions posted on Camino; include Excel spreadsheet with your work;</p>

<p>9 Nov 14/16</p>	<p>Post crisis environment in financial industry: regulation vs. innovation</p> <ul style="list-style-type: none"> • Dodd-Frank Act • Consumer protection agency • Large vs. small institutions in financial industry • Ongoing financial and banking crisis in Europe • Regulation of financial start-ups and regulatory arbitrage <p>Required reading:</p> <ul style="list-style-type: none"> • Bank Capital and liquidity. Bank of England, Quarterly Bulletin, Q3 2013
<p>10 Nov 28/30</p>	<p>The future of financial services</p> <ul style="list-style-type: none"> ✓ finance and society ✓ democratization of finance <p>Course review and Q&A session</p> <p>Suggested reading: John Kay, <i>Other People's Money</i>, 2015 Robert Shiller, <i>Finance and the Good Society</i>, 2012</p>
<p>11 TBD</p>	<p>Final exam</p>