



MA in International Business

Syllabus: *Selected Topics in Finance:* *Financial Institutions Management* *2011/2012 academic year*

Module Teacher: Dr. Gregory Perelman
Adjunct Professor

Academic hours: 24

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 major financial institutions with special focus on the operations of the U.S. commercial 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 bank (the FED in the U.S.) and its 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 in banking, 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 U.S. commercial banks 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
- Prepare and evaluate commercial loan requests and price traditional bank products
- Identify key risks facing commercial banks and learn some strategies of how those risks are managed
- Investigate U.S. shadow banking system and its role in recent financial crisis

4. Teaching Strategy

| Learning activity | Academic hours |
|--|----------------|
| Face-to-face class learning | 24 |
| Study group | 16 |
| Self-supported study including: | 15 |
| <i>Required pre-readings, preparation for in-class forms of assessment</i> | 15 |
| Total | 55 |

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., Pearson, 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:

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| Four case studies (group) | 40% | Class participation | 10% |
| Quizzes | 10% | Final exam | 40% |

Case analysis:

As part of a group of 4-5 students you will prepare four cases to be discussed in class. A 3-4 page summary (in addition to any tables and graphs) of your analysis is due before the start of the sessions.

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.

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 |
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| 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; <p>Analysis of bank financial statements and bank financial performance.</p> |
| | <p>Pre-reading: Textbook (any from the recommended list) - chapters introducing banking industry</p> <p>J.P. Morgan Chase 2010 Annual Report - letter to shareholders and summary of financial statements.</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 <u>HBS Case: The U.S. Banking Panic of 1933 and Federal Deposit Insurance</u>, prepare a group write up (3-4 pages) with answers to the following questions:</p> <ol style="list-style-type: none"> 1. Why do bank panics recur? 2. Should Roosevelt agree to bank insurance? Are there any alternative reforms of the banking system which are preferable from an economic point of view? From a political point of view? 3. Why does Glass want to separate commercial and investment banking? Are his arguments compelling? Are there any other reasons to do that (the separation)? 4. Comment on relevance of 1933 solutions to current events (2007-2009), including experience of Russian banking industry. |
| Session 2 | <p>Topics: Depository institutions: history of banks and bank regulations in the U.S.; deposit insurance; functions of the FED and the conduct of monetary policy. Review of other major central banks (ECB, BoE, BoJ)</p> |

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| | <p>Pre-reading: HBS Case: The U.S. Banking Panic of 1933 and Federal Deposit Insurance.</p> <p>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> <p>In-class activity: Case 1 discussion: deposit insurance</p> <p>Homework 2 (group assignment): Due before class session 3 (via e-mail)</p> <p>Prepare a group write up for <u>Southwest Trading Company case</u> (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> |
| <p>Session 3</p> | <p>Topic: Extending credit to businesses</p> <ul style="list-style-type: none"> • Lending policies and procedures • Lending to businesses and loan pricing <p>Additional topics: consumer loans, credit cards and real estate lending</p> <p>Pre-reading: Lending case Southwest Trading Company (Excel spreadsheets posted online)</p> <p>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: <u>Case 2 discussion:</u> commercial lending</p> <p>Homework 3 (group assignment): Due before class session 4 (via e-mail)</p> <p>Based on <u>HBS Case: Banc One Corporation. Asset and Liability</u>, prepare group write up (3-4 pages) where you discuss the following:</p> <ol style="list-style-type: none"> 1. If Banc One wanted to manage its interest rate exposure without using swaps, what could it do? Specifically, how could it move from being asset sensitive to either neutral or mildly liability sensitive without using swaps? What are the pros and cons of using swaps vs. these other means of adjusting the bank's interest rate sensitivity? What impact do they have on bank's interest rate sensitivity, liquidity, accounting ratios and capital ratios? Make sure you work through Appendix to the case. 2. What are basis swaps? Why has Banc One significantly increased its basis swap positions? 3. How might its derivative portfolio be damaging the bank's stock price? 4. What should McCoy do? |
| <p>Session 4</p> | <p>Topic: Risk management in commercial banks - credit risk and interest rate risk</p> <p>Additional topics: capital adequacy management, stress tests of major banks in the U.S. and European Union; review of Basel I and II (and proposed Basel III)</p> <p>Pre-reading: HBS Case: Banc One Corporation. Asset and Liability Management. Updated 2008.</p> |

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| | <p>The Supervisory Capital Assessment Program: Overview of Results, <i>Federal Reserve Board of Governors</i>. May 9, 2009.</p> |
| | <p>In-class activity: <u>Case 3 discussion:</u> Banc One Corporation (swaps in asset/liability management)</p> |
| | <p>Homework 4 (group assignment): Due before class session 5 (via e-mail)</p> <p>Prepare your group write up on <u>HBS case The Tip of the Iceberg: JP Morgan Chase and Bear Stearns</u>, answering the following questions:</p> <ol style="list-style-type: none"> 1. What activities did Bear Stearns undertake? Was it a commercial bank or an investment bank? 2. SEC Chairman Christopher Cox noted that Bear Stearns was an adequately capitalized institution as of March 10, 2008. Do you agree with his assessment? Are well-capitalized financial institutions invulnerable to crisis? 3. What is a “fortress balance sheet”? Evaluate the mechanisms used to manage JPMC, and how they enhanced or impeded their position as the bank best positioned to buy Bear. 4. From a commercial perspective, what are the pros and cons for JPMC of buying Bear? 5. What responsibility does Dimon have to the financial “system”? |
| Session 5 | <p>Topic: M&A in banking during crisis; course review</p> <p>Additional topics: shadow banking, financial crisis of 2007-2009 - timeline, major events, causes and consequences.</p> |
| | <p>Pre-reading: HBS Case: The Tip of the Iceberg: JP Morgan Chase and Bear Stearns (A), 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 4 discussion - Tip of the Iceberg: JP Morgan Chase and Bear Stearns</p> |
| | <p>Homework: Prepare for final exam and any questions you might have about the course topics to be addressed at the Q&A session</p> |
| Session 6 | <p>Topic: Q&A session</p> <p>Final Exam</p> |
| | <p>Pre-reading: Review course materials</p> |
| | <p>In-class activity: I will answer any of your course related questions during the Q&A session before the final exam</p> |
| | <p>Homework: none</p> |