SYLLABUS

Finance 321: Financial Institutions

Fall 2014

Dr. Gerald A. Hanweck Click here for professor Hanweck's Home Page

Office Hours: Monday and Wednesday 2:30 pm to 4:30pm, and before class or by appointment
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Consider this syllabus an agreement. There are no "extra credit" assignments. Unless otherwise stated, students are responsible for all text material, whether covered in class or not. Class notes are the students' responsibility.
Absences are treated consistent with University policy. Conflicts due to professional commitments must be indicated in advance; obligations will be due on or prior to original due dates. Makeup exams will only be given by prior arrangement or in case of a significant illness. Any University cancellation of class will result in the assignment or obligation being due the next scheduled class meeting.
Description of new features: http://www.mhhe.com/saunders7e

Recommended: *Wall Street Journal (Highly Recommended), Business Week, The Economist, Fortune, Financial Times, American Banker*

Outside Reading: Outside assignments will be announced in class and made available in class, on this website or at the Copy Center.

Honor Code: Students are expected to follow the honor code as presented in the University's Catalog.

Grading:
Midterm Examination 30 percent
Final Examination 40 percent
Cases (1) 30 percent
(Note: Class participation and discussion are expected.)

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Schedule for the Semester

**Week Subject (Chapters) and Important Dates**

8/25 Major Financial Intermediaries and Their Role in the Economy (1,2) **Model**

   **FI Role Slides** Chapter 1 PPT Chapter 2 PPT

9/1 Institutionalization of Saving, Financial Intermediation, the Financial System and Reforms (3-6), **Chapter 3 PPT** **Chapter 4 PPT** **Chapter 5 PPT** **Chapter 6 PPT**

   **First Case Distributed REVISED** (September 1, 2003)

   **Major Banking Laws**

9/8 Loanable Funds Model of Interest Rates and the Financial System (Class Handouts)

   **NEW: Audio and Graphical** September 1, 2003

   Supply of Loanable Funds: Savings (Y0)

   Supply of Loanable Funds: Savings (Y1)

   Supply of Loanable Funds: Money Market

   Demand for Loanable Funds: Private Investment (Y0)

   Demand for Loanable Funds: Private Investment (Y1)

   Equilibrium for Loanable Funds: Demand for loanable funds = Supply

RISK MEASUREMENT

9/15 Money and Capital Markets and Risks of Financial Intermediation (7), **Chapter 7**

   **PPT** Loan Sales and Syndication, Securitization and Credit Risk Management Techniques (25-26)

9/22 Interest Rate Risk - Models and Practice I (8,9) **Mismatch, Inc. Chapter 8 PPT**

9/29 Interest Rate Risk - Models and Practice II (9) **Duration Model Example Chapter 9 PPT**
Interest Rate Risk Duration Model and Bond Pricing Introduction
Bond Pricing  Implied Forward Rate
Repricing Gap Analysis (Chapter 9)
Market Risk and VaR models (10) Chapter 10 PPT

10/6
Credit Risk and Alternatives (11,27,28) Chapter 11 PPT
Credit Risk -- Single Period

10/13
Columbus Day Recess (Monday Classes meet Tuesday)

10/20 MIDTERM EXAM (Wednesday, 10/22/2014) SAMPLE MIDTERM EXAM
Credit Risk -- Multiperiod (12) Chapter 12 PPT
Credit Risk -- Multiperiod 2

10/27 Default Risk -- Options Models  
Company EDF from KMV Options Model Approach
CFO Article "Where Credit is Due"

11/3 Off-Balance Sheet and Operating Cost and Technology and Operations Risks (13,16)
Off-Balance Sheet Items Risk  Chapter 13 PPT
Operating Cost and Technology Risk  Chapter 16 PPT

11/10
Foreign Exchange and Sovereign Risks (15,16), Interest Rate Parity
Chapter 14 PPT  Chapter 15 PPT
RISK MANAGEMENT

11/17 Liquidity Risks and Asset/Liability Management (17,18)
Chapter 17 PPT  Chapter 18 PPT
Capital Adequacy, Federal Deposit Insurance, Liability Guarantees and Capital
Management (19,20) Risk-Based Capital and Capital Adequacy
Chapter 19 PPT  Chapter 20 PPT

11/24 Case Due (November 24, 2014) Thanksgiving recess 11-26 to 11/30

Product Expansion and Geographic Diversification (21) Chapter 21 PPT
Managing Interest Rate Risk: Futures, Options, Swaps and other Derivative
Instruments
(22 and 24) Chapter Futures PPT  Chapter Swaps PPT
Forward Rate Agreements and Swaps

12/1 Options, Caps, Floors and Collars, and Swaps (23) Chapter 23 PPT

12/3 Options, Caps, Floors and Collars, and Swaps (23) and Review

SAMPLE FINAL EXAM
12/15  **FINAL EXAMINATION** (Monday, December 15, 2014 4:40 pm-7:15 pm)

HAVE A PROFITABLE and PLEASANT Winter Holiday

**Case Projects**

- A. Must be typewritten, double-spaced, type no larger than 12 point, 1 inch margins or less.
- B. About 8-10 pages in length, not including references, title page, figures, or tables.
- C. Cases will be graded on six (6) equally-weighted evaluative criteria:
  - (a) Objectives/Problem Statement;
  - (b) Accomplishment of (a);
  - (c) Depth of treatment from scholarly sources;
  - (d) Logic of organization, argument and presentation;
  - (e) Readability, syntax, spelling; and
  - (f) Overall evaluation.

All ideas, hypotheses, conclusions not original with the author must be accompanied by appropriate citations. Use the style for citations followed in the text. Internet citations should include the name of the author(s), complete URL, date of the posting or publication, date of access, publisher and city, state and country. Case reports are the product of the student and should be kept by them throughout the course. Copyright by the student is assumed. Be sure to retain a copy of the paper before it is submitted.

**Case Write-up Guidelines**

1. Executive Summary of results and conclusions (less than 1 page).
2. A brief overview of the case and a statement of the problem to be addressed.
3. Tools, techniques or analytical methods to be employed to address the central problem of the case.
4. A discussion of your analysis.
5. Summary and conclusions.

**Interesting and Provocative Topics in Financial Institutions**

- 1. **Federal Deposit Insurance Corporation** - purposes, effects, and prospects
- 2. **The international debt crisis** - causes, consequences, and remedies
- 3. **The U.S. agricultural financial crisis** - causes, consequences, and remedies
- 4. **Prudential regulation** - its future in a deregulated environment and relationship to federal deposit insurance
- 5. **The S&L crisis** - causes, consequences, and remedies
- 6. **Interstate banking**: Issues of competition and expansion of customer base
- 7. **Electronic payment systems** - their impact on the scope of depository institutions markets
- 8. **Proposed deregulation** and its past and future impact on financial institution behavior and performance (choose a financial institution)
9. **Free Banking**: Historical perspective and policy issues in the context of the current debate on banking deregulation. What is "free banking?"

10. **Issues related to expanded powers for depository institutions**: E.g., securities and insurance underwriting, equity investments, brokerage services, commercial activities

11. **"Too-Big-To-Fail" doctrine**: Purposes and consequences

12. **Securities Underwriting**: Competition and pricing of underwriting services. What factors determine their fees and the extent of competition? Perhaps you may want to pick a security type - municipal bond, corporate bond and stock, junk bonds, utilities, etc. Effects of entry by large banks if the Glass-Steagall prohibitions are lifted

13. **Financial Market Crises**: Their causes, consequences and remedies


15. **Internationalization of Financial Markets and Exchanges**: Analyze the development of these markets in Tokyo, London, Hong Kong, Singapore, etc. and how they are coordinated to provide competition for financial intermediaries in the U.S. Consider also European economic integration-EC '92 and adoption of the EURO in January 1999.

16. **The U.S. Government Securities markets' organization and the implications of monopolistic practices for pricing and stability of these markets**


18. **The RTC (Resolution Trust Corporation)** and its effects on real estate markets and as a means of conducting the disposition of failed depository institutions' assets.

19. **Securitization of depository institutions' assets**: Requires little liability issue since assets are not held, but it requires the depository institution to provide a market for these instruments.

20. **The "Credit Crunch"**: Define. Was there a "credit crunch" in the early 1990s or was there only a lack of borrowers of good credit quality that needed financing.

21. **FDICIA (Federal Depository Insurance Corporation Improvement Act of 1991)**. Significant mandates to protect the FDIC Insurance Funds from being depleted (suggestion 6 above is related), established Prompt Corrective Action, capital standards for market, exchange rate, and interest rate risk, and risk-based deposit insurance premiums.

22. **Reigle-Neal Interstate Branching and Banking Efficiency Act of 1994**. Permits interstate branching for the first time throughout the U.S. unless specifically blocked by state law. Effective June 1997. The effect of this act may have been dissipated over the previous 14 years of interstate banking or it may be a strong impetus to banking consolidation, efficiency and competition.

23. **Bank for International Settlements: Basle Accord and Revisions since 1989**. Established the first international agreement on capital adequacy standards leading to the current proposals for a "models-based" identification for required capital for a banking and investment banking companies.

24. **Asian Crisis Beginning in 1997**. The collapse of the Thai baht in 1997 began the Asian Crisis that led to a collapse of several southeast a Asian economies (e.g., Indonesia) and crippled the South Korean economy.

25. **Russian Default and Devaluation of August 1998**. Led to a major flight to...
quality threatening the stability of global financial markets and the $3.6 billion bailout of Long Term Capital Management by major banks and investment banks in the U.S. and abroad that had interests in and loans to LTCM.