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.

This course is conducted as a distance learning course – online for lectures. Projects and exams will be submitted online using the Blackboard course site. Webex will be used as the medium for conducting the course online and login procedures will be supplied by email to each student for each class meeting. Video of students is not to be used for privacy purposes. Online lectures will be Thursdays at 3:00pm until 5:00pm. Recordings of each session will be made available on the Blackboard course-site. Online exams will be timed and made available to students at the start of the exam period and will be placed under Assignments in the Blackboard course site. All completed exams will be submitted via the Blackboard course site. All completed projects will be submitted via the Assignments window on the Blackboard course site.

Learning goals for the finance program:
Upon completing our undergraduate finance program, our majors will be competent in each of the following areas:

1. Finance majors will be able to value complex projects, assets, and securities.

2. Finance majors will be able to demonstrate, evaluate, and explain the risk return trade-offs in finance.
3. Finance majors will be able to conduct a financial analysis of a firm using financial statements.

4. Finance majors will be able price and use derivatives.

5. Finance majors will recognize and understand how to address ethical issues in finance including agency problems.

6. Finance majors will be able to conduct research to support the analysis of a firm or financial project and effectively present their analysis.

7. Finance majors will understand the relationships among investors, firms, financial institutions, and regulatory entities in financial markets and systems.

8. Finance majors will understand how global financial markets and institutions affect firms and investors.

**Honor Code:**
Students are expected to observe fully the GMU Honor Code. Information is available at: [http://academicintegrity.gmu.edu/honorcode/](http://academicintegrity.gmu.edu/honorcode/).

**DRC Statement:**
If you are a student with a disability and you need academic accommodations, please contact the Office of Disability Services (ODS) at 703-993-2474. All academic accommodations must be arranged through the ODS.


Description of new features: [http://www.mhhe.com/saunders9e](http://www.mhhe.com/saunders9e)

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

**Outside Reading**: Outside assignments will be announced in class and made available in class, on the Blackboard course-site.

**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

## Project
30 percent

(Note: Class participation and discussion are expected.)

These links are no longer active. Refer to the Blackboard course site links.

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### Schedule for the Semester

<table>
<thead>
<tr>
<th>Week</th>
<th>Subject (Chapters) and Important Dates</th>
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| 1    | Major Financial Intermediaries and Their Role in the Economy (1,2)  
      | Model  
      | FI Role Slides  
      | Chapter 1 PPT  
      | Chapter 2 PPT  |
| 2    | Institutionalization of Saving, Financial Intermediation, the Financial System and Reforms (3-6),  
      | Chapter 3 PPT  
      | Chapter 4 PPT  
      | Chapter 5 PPT  
      | Chapter 6 PPT  
      | Major Banking Laws  |
| 3    | 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**  

<table>
<thead>
<tr>
<th>Week</th>
<th>Subject (Chapters) and Important Dates</th>
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</table>
| 4    | 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)  |
| 5    | Interest Rate Risk - Models and Practice I (8,9)  
      | MisMatch, Inc.  
      | Chapter 8 PPT  |
| 6    | 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 (11,15)  
      | Chapter 11 PPT  |
Credit Risk and Alternatives (10)  Chapter 10 PPT
Credit Risk -- Single Period

Credit Risk -- Multiperiod (10)  Chapter 10 PPT
Credit Risk -- Multiperiod 2

MIDTERM EXAM (Monday 10/26/2020 and Wednesday 10/28/2020)  SAMPLE MIDTERM EXAM(on Blackboard Course Site)

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

Off-Balance Sheet and Operating Cost and Technology and Operations Risks (16,17)  Off-Balance Sheet Items Risk  Chapter 16 PPT
Operating Cost and Technology Risk  Chapter 17 PPT

Foreign Exchange and Sovereign Risks (13,14), Interest Rate Parity
Chapter 13 PPT  Chapter 14 PPT

RISK MANAGEMENT

Liquidity Risks and Asset/Liability Management (12,18)  Chapter 12 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

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
Term Paper Due (TBA)

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

Loan Sales and Securitization (25,16) and Review

SAMPLE FINAL EXAM

Review
Term Project
(Use APA structure)

- A. Must be typewritten, double-spaced, type no larger than 12 point, 1 inch margins or less.
- B. At least 10 pages in length, not including references, title page, figures, or tables.
- C. Term papers 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.

Project Proposal Guide

Provide a description of the project development. State your objectives for the research project, sources of data and information and what you expect your conclusions to be. Provide your name and G-number and a title for your paper.

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 bonds 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
17. **FIRREA** (Financial Institutions Reform, Recovery, and Enforcement Act of 1989) and its effects on the future of S&Ls and the industry.
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 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.


27. **Bank for International Settlements: Basle Capital Accord II Revisions to Start in 2007.**

28. **Dodd-Frank Wall Street Reform and Consumer Protection Act, July 2010**
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<th>Key URLs</th>
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<td><a href="http://www.ambest.com">www.ambest.com</a></td>
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<td>American Funds</td>
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<td>American General Life Companies</td>
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<td>The Association for Financial Markets in</td>
<td><a href="http://www.afme.eu">www.afme.eu</a></td>
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<td>Clearing House InterBank Payment System</td>
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<td>Consumer Bankers Association</td>
<td><a href="http://www.cbanet.org">www.cbanet.org</a></td>
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<td>Credit Union National Association</td>
<td><a href="http://www.cuna.org">www.cuna.org</a></td>
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<td>The Economist</td>
<td><a href="http://www.economist.com">www.economist.com</a></td>
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<td>Federal Deposit Insurance Corporation (FDIC)</td>
<td><a href="http://www.fdic.gov">www.fdic.gov</a></td>
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<td>Federal Financial Institutions Examination</td>
<td><a href="http://www.ffiec.gov">www.ffiec.gov</a></td>
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<td>Council (FFIEC)</td>
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<td>Federal Home Loan Mortgage Corporation</td>
<td><a href="http://www.freddiemac.com">www.freddiemac.com</a></td>
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<td>Federal Housing Finance Agency</td>
<td><a href="http://www.fhfa.gov">www.fhfa.gov</a></td>
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<td><a href="http://www.fanniemae.com">www.fanniemae.com</a></td>
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The Heritage Foundation  www.heritage.org
HSBC Finance  www.hsbc.com
Institutional Investor  www.institutionalinvestor.com
Insurance Information Institute  www.iii.org
Insurance Services Office  www.iso.com
IntercontinentalExchange (ICE)  www.theice.com
International Monetary Fund (IMF)  www.imf.org
International Swaps and Derivatives Association  www.isda.org
Investment Company Institute  www.ici.org
J.P. Morgan Chase  www.jpmorganchase.com
Moody's  www.moodys.com
Moody's KMV  www.moodyskmv.com
Morningstar  www.morningstar.com
MSCI  www.msci.com
National Association of Insurance Commissioners (NAIC)  www.naic.org
National Credit Union Administration  www.ncua.gov
New York Stock Exchange (NYSE) Euronext  www.nyse.com
Office of Thrift Supervision  www.ots.treas.gov
Pension Benefit Guaranty Corporation  www.pbgc.gov
The Risk Management Association  www.rmahq.org
RiskMetrics  www.riskmetrics.com
Securities and Exchange Commission  www.sec.gov
Securities Industry and Financial Markets Association  www.sifma.org
Securities Investors Protection Corporation  www.sipc.org
Standard and Poor's  www.standardandpoors.com
State of New York Insurance Department  www.ins.state.ny.us
Thomson Reuters  http://thomsonreuters.com
Thomson Reuters Loan Pricing Corporation  www.loanpricing.com
Transparency International  www.transparency.org
U.S. Commodity Futures Trading Commission  www.cftc.gov
U.S. Department of Justice  www.justice.gov
U.S. Department of the Treasury  www.ustreas.gov
Vanguard  www.vanguard.com
The Wall Street Journal Online  http://online.wsj.com
The World Bank  www.worldbank.org