



Finance 579 (Special Topics):

*Financial Institutions: Fueling Growth, Managing Risk, and
Avoiding the Next Financial Crisis*

Spring 2016

<i>Instructor:</i>	Florian Schulz	<i>Class Hours:</i>	Thursday 6:30-9:45 pm (<i>tentative</i>)
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COURSE OBJECTIVES:

This course is intended to provide an understanding of financial institutions and the banking industry more generally. Incentive conflicts and agency problems – prominent issues leading to the financial crisis – will be discussed throughout the course, as will be solutions to mitigate these problems, both from a regulatory as well as from a company’s or bank’s perspective. One of the course’s main goals is to build a strong intuitive understanding of these “informational problems”, which are not unique to banking but omnipresent in the business world, and to enhance the critical thinking ability of students. Large emphasis will also be given to measurement and management of risks (interest rate risk, credit risk etc.).

COURSE MATERIALS: (*tentative*)

Textbook: TBA

HBS Cases:¹ (1) *Rosetree Mortgage Opportunity Fund* by Victoria Ivashina and Andre F. Perold²
(2) *Banc One Corp.: Asset and Liability Management* by Peter Tufano and Benjamin C. Esty³
(3) *Basel II: Assessing the Default and Loss Characteristics of Project Finance Loans (A)* by Benjamin C. Esty and Aldo Sesia⁴

The cases must be purchased from the HBR website (cost of ~\$10 each). I will also occasionally send out relevant articles that I expect you to read and that may be discussed at the beginning of the class.

¹ Due to copyright issues, each student *must* purchase the cases. You may *not* copy the cases or share the pdf file.

² <http://hbr.org/product/Rosetree-Mortgage-Opportu/an/209088-PDF-ENG>

³ <http://hbr.org/product/banc-one-corp-asset-and-liability-management/an/294079-PDF-ENG>

⁴ <http://hbr.org/product/Basel-II--Assessing-the-D/an/203035-PDF-ENG>

COMMUNICATION:

Email is the preferred method of contact for this course. I will make every attempt to respond within 24 hours. Many, but not all, course documents will be made available on Canvas. You are responsible for frequently checking for announcements and updated course content on Canvas.

EVALUATION AND COURSE GRADE: (*tentative*)

There are two tests, cases, occasional in-class quizzes, and a research project. The course grade will be calculated as follows:

	<u>Percentage</u>
Cases:	25%
Research Paper ("project"):	25%
Midterm Exam	20%
Final Exam:	20%
<u>Participation (incl. quizzes):</u>	<u>10%</u>
Total:	100%

EXAMS: Exams are closed notes/book. The final exam is comprehensive, but will have more questions relating to the second half of the course.

QUIZZES: I may occasionally give short 5-10-minute throughout the quarter (multiple choice and/or open question). *Quizzes are unannounced.* The main purpose of the quizzes – and the best way to prepare – is for you to review the material of the last session.

CASES: There will be three case assignments for this course. A written analysis of each case will be due on the date we discuss the case in class. You should provide a 3-page executive summary of your recommendations and supporting analysis. Relevant tables, figures, or computations may be included in an appendix. To guide your analysis, I will post a set of questions to the course website to accompany each case. You should bring a hard copy of your report to class to turn in for grading. Late reports will not be accepted. In addition, you should prepare a 15-minute presentation of your analysis. For each case, one or two students will be randomly selected to present their analysis to the class.

The cases are an important opportunity to practice your skills as a financial analyst by applying the concepts we will cover in class to real world problems. Thus, I ask that you not research the outcomes of the cases or search for external studies or articles concerning the issues raised by the case.

PROJECT: An integral part of this course is the completion of a "**research paper**" and "**presentation**" of a (banking-related) topic of your choice. Possible topics could include but are certainly not limited to:

- What happened in a specific sector during a financial crisis
- Any current policy or regulatory issue
- New products or services, industry disruptions, and challenges

- etc.

The research paper is an opportunity for you to branch out and become an expert in subjects that we have not (or have only marginally) covered in this course. Your paper should not exceed 15 pages. You will also be asked to give a **presentation** (incl. leading a possible class discussion) and provide a 1-2 page executive summary to your classmates.

Attendance and being actively engaged in class is expected in the business world and it is expected in this course. I will routinely ask questions to the class. I am *not* a video-tape so please err on the side of participating.

ACADEMIC INTEGRITY:

By being a student in this course, you acknowledge that you are a part of a learning community at the Foster School of Business that is committed to the highest academic standards. As a part of this community, you pledge to uphold the fundamental standards of honesty, respect, and integrity, and accept the responsibility to encourage others to adhere to these standards. The Student Conduct Code outlines the expectation of academic conduct and the consequences of misconduct.⁵

I view cheating as an offense against your fellow students in the course, against the professor, and against the university as a whole. Because it is a large part of my responsibility to ensure that all students are treated fairly and to uphold and build the reputation of the university, I take all forms of cheating very seriously. Please don't cheat.

POLICY REGARDING LAPTOP USE AND CELL PHONES IN THE CLASSROOM:

Off-line use of laptops is allowed (e.g., for note taking). Please do not use your laptop or cell phone to surf the web or email others and make sure that your cell phone is kept on silent during class.

⁵ See the following document for a definition of academic misconduct and the procedures for dealing with misconduct: <http://depts.washington.edu/grading/pdf/AcademicResponsibility.pdf>

TENTATIVE COURSE SCHEDULE⁶ (*tentative*)

Part I: General Concepts

Introduction: Issues in financial intermediation

How might we measure a bank's financial performance?

Types and functions of financial intermediaries

A special bank: The Federal Reserve and monetary policy

Agency problems and the financial crisis: An introduction

Information Economics: Moral Hazard

Information Economics: Adverse Selection

Deposit Banking and Models of Bank Runs

Case 1: Rosetree Mortgage Opportunity Fund

MIDTERM EXAM

Part II: Measuring and Managing Risk

The risks of banking.

The duration and convexity model of interest rate risk.

Market risk: The Value at Risk Model

Hedging using financial derivatives.

Case 2: Banc One Corp.: Asset and Liability Management

Credit risk.

Part III: Regulation & Supervision, Financial Crisis and recent developments

Case 3: Basel II: Assessing the Default and Loss Characteristics of Project Finance Loans (A)

The Securitization System and Financial Crisis

Project Presentations

FINAL EXAM

⁶ This syllabus and course schedule will be revised from time to time over the course of the quarter and be reposted on the class website. Students are responsible for keeping up on changes, which will be announced in class and/or on Canvas.