

Graduate School of Management
University of California at Davis

**MGP/MGT 259: Banking and the Financial System
Spring 2017 - SYLLABUS**

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Course Objective: This course will analyze the role of financial markets and financial institutions in allocating capital. The major focus will be on bank lending, debt securities and on innovations in the financial markets. We will emphasize the loan function, with primary focus on the measurement and management of risk for financial institutions, including credit and interest rate risk. We will also study the influence of the central bank and monetary policy on credit markets and systemic risk. The special nature of financial institutions will be discussed, incorporating intermediaries' objectives, functions, policies, organization, structure, services, and regulation. We will also discuss the evolving nature of the financial services industry.

Prerequisites: I will assume that you have familiarity with the material covered in the core finance course, as well as the basics of accounting. You should also be comfortable with basic statistics (e.g., regression analysis, conditional distributions) as well as basic algebra.

Required Materials: The required textbook for the course is *Financial Institutions Management*, 8th Edition, by Saunders and Cornett. I will assign some homework questions from this book (see below). There is also a coursepack containing the cases.

Grading: The course grade will be based on the following:

Exam I	30%
Exam II	30%
Homework	20%
Case memos	20%

The two exams are mandatory, on the dates listed in the detailed schedule below.

I expect that there will be roughly 5 homework assignments, which will be graded primarily for effort. Experience has shown, however, that students that dedicate some effort to the assignments tend to understand the material better and do better in the course.

Cases: There will be six cases discussed in class. Each case will come with a set of suggested questions that will prove useful in focusing your discussion and guiding your analysis. You are welcome to form groups to work on the cases. If you do so, please turn in only one copy of the case analysis for the entire group, with everyone's name.

For the cases, each group will be required to provide a 2-page (max) memo on four (4) of those cases. These memos are to be turned in *before* the case is discussed in class. Writing a memo should help you prepare to participate in the class discussion. Your memo should *succinctly* state the major problem faced by the managers in the case and offer a course of action (a suggestion). Whatever course of action you suggest should be supported by a *persuasive* argument and should be tailored to the situation. Any calculations required should be attached as exhibits, but should be referenced appropriately in the text. I should be able to understand any tables you attach by reading the accompanying text. Please keep these to a minimum, not to exceed an additional 4 pages.

List of cases:

U.S. Bank of Washington	HBS 9-292-057
Banc One Corporation	HBS 9-294-079
Chase's Strategy for Syndicating the Hong Kong Disneyland Loan	HBS 9-201-072
First American Bank: Credit Default Swaps	HBS 9-203-033
Blackstone and the sale of Citigroup's loan portfolio	HBS 9-214-037
TBD	

Regrading of Exams: Any requests for regrading must be submitted in writing **within one week** from the date the exam is returned in class. If you miss the class during which the exam or assignment is returned, it is your responsibility to pick up the missed item within the one-week period. Requests for regrading must be very specific. Do not mark or make notes on your exam or assignment, and do not alter in any way the answers to the questions. Please be aware that your score may rise or fall as a result of regrading.

Academic integrity: We will abide by the school's code of academic integrity. Please note that while you are encouraged to work as a group in all of the case assignments as well as the valuation project, all examinations are to represent individual work! Note that working as part of a group implies that you are an active participant and fully contributed to the output produced by that group.

Special Needs: Any student with special needs should bring this to the attention of the instructor as soon as possible, but not later than the second week of class.

Tentative course schedule: Specific readings may be added over the course of the semester, and will be posted to the course's website. Please note that the schedule of topics is subject to change. Chapter numbers are for Saunders and Cornett, 8th Edition.

	<p>What do FI's do? What makes FI's special?</p> <p>Types of institutions; Introduction to risks faced by FI's, regulation</p> <p>Some fixed income mathematics</p> <p>Ch. 1, 2, 7</p>
Session 2	<p>The role of the central bank and monetary policy</p> <p>Measuring interest rate risk</p> <p>CASE: U.S. Bank of Washington</p> <p>Ch. 8, 9</p>
Session 3	<p>Managing risk with financial instruments I: Derivatives and Hedging</p> <p>Options, caps, floors, and swaps</p> <p>Ch. 23, 24</p>
Session 4	<p>Making lending decisions; effect of macroeconomic environment</p> <p>Pricing bank loans, corporate debt</p> <p>CASE: Banc One</p> <p>Ch. 10</p>
Session 5	<p>Measuring credit risk</p> <p>Portfolio approaches to measuring credit risk</p> <p>CASE: Chase's syndication strategy</p> <p>Review</p> <p>Ch. 11</p>
Session 6	Exam I
Session 7	<p>Liquidity risk and Asset-Liability Management</p> <p>Credit derivatives</p> <p>Ch. 18</p>
Session 8	<p>Regulation: Capital adequacy, Deposit insurance, Failure Resolution</p> <p>CASE: First American Bank</p> <p>Ch. 20</p>
Session 9	<p>Loan sales and securitization</p> <p>CMO's, MBO's, etc.</p> <p>CASE: Blackstone and the sale of Citigroup's loan portfolio</p> <p>Ch. 25, 26</p>
Session 10	<p>Crises and the regulatory response</p> <p>The changing nature of credit markets</p> <p>CASE: TBD</p>
Final date	Exam II