

Graduate School of Management
University of California at Davis

**MGT 259: Banking and the Financial System
Spring 2020 - 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*, 9th Edition, by Saunders and Cornett. I will assign some homework questions from this book (see below). There is also a textpak containing the cases.

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

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

I expect that there will be roughly 4 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 five 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 required to provide a 2-page (max) memo on four (4) of those cases.

These memos are to be turned in electronically prior to the *start* of the class session in which the case is to be discussed. 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. Try to include any required calculations to arrive at your conclusions. If you include any tables (you may choose to do so, but it is not necessary), I should be able to understand them and they should be referenced in the text. Please keep these to a minimum, not to exceed an additional 2 pages. Additional guidelines will be made available on the course website.

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

Regrading of Exams/Assignments: Any requests for regrading of exams or assignments must be submitted in writing **within one week** from the date the exam or assignment is returned. Requests for regrading must be very specific. Please be aware that your score may rise or fall as a result of regrading.

Code of Academic Conduct: 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. Here is the link to the university's code of academic conduct: <http://sia.ucdavis.edu/files/cac.pdf>

A final note: We are all adjusting to a new world at the moment, and a "new normal". I know none of you signed up thinking of this as an online program, and I am not an expert on distance learning – I am picking it up as we go along! So I will ask that we all be patient with each other, work hard to accommodate everyone's needs, and be supportive. In turn, I will try to do everything I can to make this as smooth as possible, recognizing that there may be some hiccups. I would like to ask every one of you to please don't hesitate to reach out to me, even if it is primarily to let me know when one class session went particularly poorly, and/or if you have any suggestions for how to make it better. I also want to ask for your patience if the syllabus winds up changing slightly as the course goes along. Any changes will be done primarily to reflect what I think is working better, and they will be done with an eye toward not increasing your overall workload.

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, 9th Edition.

Session 1	<p>Introduction</p> <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>Pricing bank loans, corporate debt</p> <p>CASE: Banc One</p> <p>Ch. 10</p>
Session 5	<p>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>Credit derivatives</p> <p>Liquidity risk and Asset-Liability Management</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>FinTech and credit markets</p>
Final date	Exam II