

Finance 331
The Management of Financial Institutions
Fall, 2002

Instructor: Dr. Maurice Ewing

Room: 2504 (70)

Time: Monday and Wednesday (L1 14:00 – 15:20, L2 15:30 – 16:50)

Email: maewing@ust.hk

Office: 2343 (next door to Management Department office)

Office Hours: By appointment, please send emails with questions or to arrange a time to speak. Otherwise, I am available before each lecture. **Please give at least two days for a response to lengthy emails.**

Course Web Site: www.bm.ust.hk/~maewing

Course Materials:

******All materials are required. You MUST PURCHASE the course textbook within the first 2-3 weeks of the course (it is very cheap). You also MUST register for the news website (this is free).**

- i) Marcia Millon Cornett and Anthony Saunders (C&S), *Fundamentals of Financial Institutions Management*, McGraw-Hill International.

You will often need to bring this textbook to class. My lectures will follow it very closely and I will often draw examples (as well as test questions) from it in class.

- ii) Finance Asia Website: www.financeasia.com

We will use this news website to draw much of our information about banking and financial institutions in Asia. We will also draw information from the South China Morning Post from time to time.

Course Objective: This course is intended to provide students with a basic understanding of financial institutions and their role in financial markets as well as a more advanced treatment of the most common risk management tools that banks employ during their day-to-day operation. Several of the topics that we will cover include:

- a) Why banks and other financial institutions exist
- b) What services banks provide to investors and to firms
- c) What are the various risks that banks face while operating in financial markets and how they deal with those risks
- d) What macroeconomic roles banks perform
- e) What financial products do banks provide to the market and how they are used
- f) How banks are regulated in China, Hong Kong and the US

Because this course involves a good deal of basic material, we will not have adequate time to deal specifically with **FINANCIAL INSTITUTIONS IN HONG KONG**. Students interested in an in-depth treatment of this material are better advised to take Finance 221.

Prerequisites: Fina 111 as well as calculus and basic statistics. Knowledge of fixed-income mathematics will be a definite advantage.

Assessment: Your grade will be computed from your combined performance on a midterm (40%) and a final exam (60%). Both of these exams will have a similar format and previous examples of each will be posted on the website prior to the exam date. This format includes questions that are: multiple choice, fill-in, true/false and numerical, as well as, operations that closely resemble some examples in the text.

THERE WILL BE NO MAKEUP EXAMS. If you miss the midterm, you will receive a zero score---NO EXCUSES. If you miss the final, you must contact ARRO for they are in charge of such matters. Nonetheless, there will not be a makeup final. If you are feeling unwell prior to an exam, my advice is to get some sleep but still take the exam.

Questions: On the website, I will post a section of Frequently Asked Questions (FAQs). Please refer any administrative questions (regarding exam format, grading, notes, etc.) to this website. If you email any such questions to me I will not respond.

Course Schedule and Outline (Subject to revision)

- 1) Each lecture will generally cover one chapter in Cornett and Saunders (C&S). Under certain circumstances (where the topics are exceptionally difficult or the chapters are lengthy) we will use two lectures to cover that topic.
- 2) **You are responsible for reading each chapter BEFORE we discuss it in class.** I will attempt to make some notes available on the website covering that chapter.
- 3) It is not mandatory that you come to lectures: however, I will cover some examples in the text during lecture. As well, I may draw several of your midterm and final questions from examples discussed in class and THESE MAY NOT BE INCLUDED IN THE CLASS NOTES.

Preliminary Course Schedule

(Note: The week of October 14th, there will be no lectures)

Monday, September 2nd

Welcome and Course Introduction

Wednesday, September, 4th

Readings: Cornett and Saunders (C&S) Chapter 1

“Why are financial intermediaries special?”

Monday, September, 9th

Readings: C&S, Chapter 2

“Financial Markets: The Fundamentals”

Wednesday, September, 11th

Readings: C&S, Chapter 3

“Depository Institutions”

Monday, September, 16th

Readings: C&S, Chapter 4

“Insurance Companies”

Wednesday, September, 18th

Readings: C&S, Chapter 5

“Securities Firms and Investment Banks”

Monday, September 23rd

Readings, C&S, Chapter 6
“Finance Companies”

Wednesday, September 25th

Readings, C&S, Chapter 7

Monday, September 30th

Readings, C&S, Chapter 8
“Evaluating the performance of Financial Intermediaries”

Wednesday, October 2nd

Readings, C&S, Chapter 9
“The Risks of Financial Intermediation”

Monday, October 7th

Readings, C&S, Chapter 10
“Credit Risk I”

Wednesday, October 9th

Readings, C&S Chapter 11
“Credit Risk II”

****Monday, October 14th**

(No Lecture, Public Holiday)

****Wednesday, October 16th**

(No Lecture)---We will make this up at the end of the course

Monday, October 21st

Readings: C&S, Chapter 12
“Loan Sales and Asset Securitization”

Wednesday, October 23rd

Readings: C&S, Chapter 13
“Liquidity Risk”

Monday, October 28th

Readings: C&S Chapter 27
A brief discussion of “Foreign Exchange Risk” (Not on Midterm)
Midterm Q&A: For the first 30 minutes you can ask questions about material to be covered on Wednesday’s midterm

Wednesday, October 30th

Midterm Examination: during entire lecture period
Midterm covers all lectures **through** (including) “liquidity risk”.
Multiple Choice, T/F and T-account manipulation format

Monday, November 4th

Readings: C&S, Chapter 14
“Liability and Liquidity Management”

Wednesday, November 6th

Readings: C&S, Chapter 15
“Deposit Insurance and other guarantees”

Monday, November 11th

Readings: C&S Chapter 16
“Capital Adequacy”

Wednesday, November 13th

Readings: C&S Chapter 17
“Interest Rate Risk I”

Monday, November 18th

Readings: C&S, Chapter 18
“Interest Rate Risk II”

Wednesday, November 20th

Finish material on Interest Rate Risk if there is any remaining

Monday, November 25th

Readings: C&S Chapter 19
“Market Risk”

Wednesday, November 27th

Readings: On the Hong Kong financial system (to be handed out in class)
“Regulatory theory and Regulation in Hong Kong”

Monday, December 2nd

Readings: On the Chinese Financial System (to be handed out in class)
“Chinese banking regulation and the Non-performing loan problem”

Wednesday, December 4th (Last Scheduled Lecture)

Readings: On the US Financial System (to be handed out in class)
“The US Regulatory System”

Makeup Lecture and Review Session (TBA)