

**Hong Kong University of Science and Technology  
School of Business and Management**

**FINA 331: Management of Financial Institutions  
First Semester, 2003-2004**

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Course website: webct.ust.hk

Lectures: Class 01: Monday and Wednesday, 2pm – 3:20pm  
Class 02: Monday and Wednesday, 3:30pm – 4:50pm

**Main text**

Cornett, Marcia M and Anthony Saunders, 1999, *Fundamentals of Financial Institutions Management*, Irwin/McGraw-Hill, international edition.

**Pre-requisite**

FINA 221 (Investment Analysis and Portfolio Management)

**Additional references**

Chartered Institute of Bankers, 2001 edition, *Hong Kong Banking System and Practice*.

Scott, Robert Haney and Kie Ann Wong, editors, March 2003, *The Hong Kong Financial System*, second edition.

**Course description**

This course provides a framework for studying the management of financial institutions. Emphasis is placed on managing risk in these institutions including credit risk, interest rate risk, foreign exchange risk and liquidity risk. The roles that financial institutions play in financial markets and in the economy are also studied along with their regulation by supervisory authorities. While the course is centered on general management principles and practices, management of financial institutions in Hong Kong and China will be addressed.

### Assessment

|                      |            |  |
|----------------------|------------|--|
| In-class examination | 20%        | (Chapters 1-8 + HK FIs, October 8)         |
| Research paper       | 20%        | (due November 19)                          |
| Class participation  | 20%        |  |
| Final examination    | <u>40%</u> | (Chapters 9-20, 23-24, and 26-28; date and |
| Total                | 100%       | time to be announced)                      |

### Course policies and general information:

1. Students are expected to come to class **on time** having read the assigned material.
2. Please turn off mobile phones and please refrain from talking to fellow classmates during class lectures. Note that the mark for class participation depends both on quality and quantity. Any student who attends class frequently and who routinely talks during class may get a high mark for quantity but a low mark for quality. In the extreme, a student could receive a grade of zero for participation quality. In this case, even if the quantity mark is 100%, the product of 0% and 100% is zero, meaning that even if every other mark is 100%, the highest mark that can be earned in the overall course would be 80 percent.
3. Some class lectures will be accompanied by PowerPoint slides so students may see as well as hear the material being presented. PowerPoint presentations may be downloaded from the class website on WebCT prior to class and printed in hard-copy form for use in class. When printing, choose "print slides" from the print menu and then select the "six-slides-per-page" and "grayscale" options. Excel spreadsheets used in class may also be posted on WebCT.
4. It is to your advantage to do assigned end-of-chapter problems. Some, but not all, of these problems may be discussed in class and may appear on examinations. Solutions to assigned problems will be posted on Web CT.
5. There will be an in-class mid-term examination on Wednesday, 8<sup>th</sup> October 2003, and a final examination during the university's final examination period in December 2003. Non-programmable electronic calculators and dictionaries (hard-copy only, no electronic) may be used during these examinations. Laptop computers, mobile phones and other electronic devices may not be used. The mid-term and final examinations will count for 20 percent and 40 percent respectively of the overall course grade. If the mid-term examination is not taken for whatever reason, the final examination will count for 60 percent of the overall course grade.

## Research Paper Assignment

**Purpose:** The purpose of this assignment is to gain experience in researching and writing a paper on a topic relevant to the management of financial institutions. The aim is for students to sharpen critical thinking abilities and improve writing skills by doing original research and analysis.

**Eligible topics:**

1. A financial analysis of a financial institution of your choice
2. An evaluation of the risk-based supervisory approach to bank supervision adopted by the Hong Kong Monetary Authority in 1999
3. A SWOT (strengths, weaknesses, opportunities, and threats) analysis of the Hong Kong banking industry
4. An evaluation of alternative entry strategies available to foreign banks that want to expand geographically into China

Other topics may be chosen. See the course instructor for approval.

**Suggested process:**

1. Decide on a topic and hand in a brief statement of why the topic was chosen (topics are due on or before October 22)
2. Search out sources of information on the topic using textbook, library, Internet and other available resources. At least three references are to be used and included in the bibliography.
3. Develop an outline of the paper containing headings, subheadings and decide what you want to say in each section and subsection. This is the most important part in the process; it is also the most difficult.
4. Write the paper. Be sure to include in the paper a direct quote from each of three different references.

**Content:** The purpose of the paper itself is to inform the reader about the topic. The content of the paper involves critical thinking and analysis on the writer's part. Most topics are not one-sided. All relevant viewpoints should be expressed in the paper and the writer should give his or her own opinion when viewpoints are in conflict.

**Presentation:** Papers are to be typewritten (double-spaced, 12-point font, preferably Times New Roman font, standard margins) and should be **no less than four** and **no more than seven** pages in length not including the cover page, the list of references, and any major tables, graphs, or appendices.

Papers should be well organized and clearly written. It will be helpful if an outline is prepared before writing the paper. Pay attention to structure (use of headings and subheadings) and consider using tables and graphs to present numerical information. Any large data tables or other exhibits can be placed in an appendix at the end of the paper.

Also, pay attention to grammar and spelling and **use spellchecker**. Use simple, direct sentences. Avoid overly long sentences and paragraphs. Revise and rewrite your work. Read your work aloud to yourself—if what you have written sounds awkward, then the reader will probably find it awkward as well. Proofread your work carefully and have someone else proofread your work.

***Due dates and times:*** Statements of why a topic was chosen are due on or before class on **Wednesday, 22<sup>nd</sup> October 2003**. Papers are to be handed in on or before the beginning of class on **Wednesday, 19<sup>th</sup> November 2003**. Unless prior approval has been given by the instructor, papers turned in within 24 hours after the due date and time will be marked down by 50 percent. Papers more than 24 hours late will be given a grade of zero.

***Assessment:*** Each paper will be given a grade for presentation and a grade for financial content. The presentation and content grades will be worth 25 percent and 75 percent respectively. The paper will count for 20 percent of the total course grade.

***Plagiarism:*** Remember, copying from any source (book, newspaper, magazine, Internet, fellow student, etc.) without referencing is plagiarism. Papers not formally referenced or that contain plagiarism will be marked with a zero.

# FINA 331 (Management of Financial Institutions), Semester 1, 2003-4

## Course Outline and Assignment Schedule

| Class  | Day | Date   | Topic  | Cornett & Saunders Chapter (questions*) |
|--|-----|--------|--|---|
| 1  | M   | 01-Sep | Introduction   |   |
| <b><i>Financial markets and institutions</i></b>       |     |        |  |   |
| 2  | W   | 03-Sep | Why financial intermediaries are special                   | 1 (2, 9, 13, 19)                        |
| 3  | M   | 08-Sep | Financial market fundamentals                              | 2 (2, 10, 11, 13, 15)                   |
| 4  | W   | 10-Sep | Interest rate fundamentals                                 | 2 (16, 17, 18, 19, 22)                  |
| 5  | M   | 15-Sep | Depository financial institutions                          | 3 (1, 5, 6, 7, 8)                       |
| 6  | W   | 17-Sep | Insurance companies  | 4 (9, 10, 11, 17, 20)                   |
| 7  | M   | 22-Sep | Securities firms and investment banks                      | 5 (1, 6, 16, 17, 18)                    |
| 8  | W   | 24-Sep | Finance companies; mutual funds                            | 6 (14); 7 (11, 12, 16)                  |
| 9  | M   | 29-Sep | Evaluating the performance of financial intermediaries     | 8 (16, 18, 19)                          |
| 10   | W   | 01-Oct | <b>National Day holiday -- no class</b>                    |   |
| 11   | M   | 06-Oct | Financial institutions in Hong Kong                        | handout                                 |
| 12   | W   | 08-Oct | <b>In-class examination (Chs 1-8 + FIs in Hong Kong)</b>   |   |
| <b><i>Risks of financial intermediation</i></b>        |     |        |  |   |
| 13   | M   | 13-Oct | Overview of risks  | 9 (3, 5, 10, 18, 20)                    |
| 14   | W   | 15-Oct | Credit risk: Credit analysis, lending risk and loan return | 10 (8, 13, 17, 20)                      |
| 15   | M   | 20-Oct | Credit risk: Loan portfolio risk                           | 11 (8, 9, 11)                           |
| 16   | W   | 22-Oct | Loan sales, asset securitization; Liquidity risk           | 12 (7); 13 (9, 11, 12)                  |
| <b>Research topic due on or before 22 October</b>      |     |        |  |   |
| 17   | M   | 27-Oct | Liability and liquidity management                         | 14 (2, 3, 5)                            |
| 18   | W   | 29-Oct | Deposit insurance; Capital adequacy                        | 15 (15); 16 (6, 9, 10)                  |
| 19   | M   | 03-Nov | Management of interest rate risk, part 1                   | 17 (5, 11, 13, 20)                      |
| 20   | W   | 05-Nov | Management of interest rate risk, part 2                   | 18 (8, 11, 16)                          |
| 21   | M   | 10-Nov | Market risk  | 19 (4,, 5, 9, 11)                       |
| 22   | W   | 12-Nov | Off-balance-sheet activities and their risk                | 20 (6, 11)                              |
| 23   | M   | 17-Nov | Interest rate swaps and currency swaps                     | 23 (5, 7, 9, 15)                        |
| 24   | W   | 19-Nov | Operating cost and technology risk                         | 24 (8, 12, 13, 15)                      |
| <b>Research paper due at beginning of class 19 Nov</b> |     |        |  |   |
| 25   | M   | 24-Nov | Foreign exchange risk                                      | 27 (2, 3, 4, 11, 14)                    |
| 26   | W   | 26-Nov | Sovereign risk   | 28 (15, 18)                             |
| 27   | M   | 01-Dec | Geographical expansion                                     | 26 (19, 20)                             |
| 28   | W   | 03-Dec | Revision   |   |
| TBA  |     |        | <b>Final examination</b>                                   |   |

\*Assigned questions and problems are found at the end of the Cornett & Saunders textbook chapters