

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

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

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Course website: webct.ust.hk

Lectures: Tuesday and Thursday, 3pm – 4:20pm

**Pre-requisite**

FINA 221 (Investment Analysis and Portfolio Management)

**Course description**

*Management of Financial Institutions* is important for students who intend to manage financial companies, trade with them, acquire funds from or through them, provide consulting and other services to them, or sell products to them. Commercial banks, investment banks, mutual funds, and insurance companies are the economy's most important financial institutions. Their impact goes well beyond the financial sector to affect businesses and households throughout the entire economy.

Much of the body of knowledge in the management of financial institutions area is analytical and quantitative, especially in the risk management area. This course will involve both the analytical and the financial policy aspects of managing financial institutions. Teaching methods include lectures, group written homework assignments, and in-class discussion of lecture topics, related numerical problems, and current events. Financial institutions in Hong Kong and China are emphasized.

**Required text**

Cornett, Marcia M and Anthony Saunders, 1999, *Fundamentals of Financial Institutions Management*, Irwin/McGraw-Hill, international edition. ISBN 0-256-25367-6. Textbook website: www.mhhe.com

## **Course objectives**

Upon completion of this course, a student should be able to:

1. Identify the sources of value created by financial institutions.
2. Identify and describe the principal asset and liability categories of the various financial institutions and the reasons for these holdings.
3. Evaluate the financial performance of a financial institution.
4. Explain how changes in technology and regulation affect financial institutions.
5. Identify and describe the principal risks that financial institutions face, and explain how financial institutions go about managing these risks.
6. Calculate a financial institution's exposure to interest rate, currency, and market risks along with the cost or benefit from using swap and forward contract derivatives to hedge these risks.
7. Describe the product and geographic expansion strategies currently being used by financial institutions.

## **Assessment**

Two in class quizzes (done individually)	30%
Three homework assignments (done in groups)	30%
Class participation (done individually)	10%
Final examination (done individually)	<u>30%</u>
Total	100%

## **Course policies and general information**

1. Students are expected to come to class **on time**.
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 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. Most class lectures will be accompanied by PowerPoint slides and/or Excel spreadsheets so students may see as well as hear the material being presented. PowerPoint and Excel files may be downloaded from the class website on WebCT before class and printed in hard-copy form for use in class. When printing slides, choose "print slides" from the print menu and then select the "six-slides-per-page" and "grayscale" options.
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. Early in the semester, the instructor will form students into three- or four-person groups. Group work will be done in class from time to time, and homework assignments will be done on a group basis.
6. There will be two in-class quizzes and a final examination during the university's final examination period. (See course outline for quiz dates.) The two quizzes will each count 15% and the final examination will count 30% towards the overall course grade. Students will be assessed individually on quizzes and on the final examination. Electronic hand calculators may be used in quizzes and examinations, but laptop computers, mobile phones and other electronic devices may not be used.

No makeup quizzes will be given. If you miss one quiz for whatever reason, the grade received on the other quiz will be applied to the missing quiz. If you miss both quizzes, then a grade of zero will be applied to any quiz that is missed **without a legitimate excuse** while the grade received on the final examination will be applied to any quiz missed **with a legitimate excuse**. Legitimate excuses include illness (must be documented) and deaths in the family.

7. There will be three written homework assignments, each counting for 10% of the overall course grade. These assignments will be assessed on a group basis, meaning that all members of a group will receive the same grade. If a "free rider" problem develops, meaning one or more group members is not pulling their own weight, group members should try to resolve the problem among themselves. If this does not work, then the entire group should schedule a meeting with the instructor. Grades of students not making an appropriate contribution to the group effort will be adjusted accordingly.

### **Study hints**

1. Bring to class copies of the class notes that are found on WebCT, and take notes in class as well. Review your notes as soon after class as possible. In so doing, try to explain ideas and concepts in your own words. Find and correct any errors in the notes, and let the instructor know of the errors.
2. Pay attention to the objectives presented at the beginning of each course module and lecture. Quiz and examination questions will be based on these objectives.
3. Don't read the textbook before class; rather, read the textbook after class on the topic covered in class. The textbook should help you fill in any gaps in your notes. Book reading is a passive activity and you will benefit more by going over your notes and using the textbook to add to your notes.
4. Attempt to explain complex ideas in everyday language. This is the key to meaningful learning and an important step toward critical thinking.
5. You are encouraged to ask questions of the instructor both in and out of class. This can be done via e-mail or personal contact. While the instructor has scheduled office hours, he is also receptive to student with questions telephoning or visiting at most any time.

### **Additional references**

Chartered Institute of Bankers, 2001 edition, *Hong Kong Banking System and Practice*. (332.10951215 C54?)

Hong Kong Monetary Authority, 1998, Review of Currency Board Arrangements in Hong Kong, December. Can be downloaded from [www.hkma.gov.hk](http://www.hkma.gov.hk)

Ho, Richard Yan-ki, Robert Haney Scott, and Kie Ann Wong, editors, 1991, *The Hong Kong financial system*, Oxford University Press. (332.095125 H77?)

Jao, Y C, 1997, *Hong Kong as an international financial center: Evolution, prospects and policies*. (publisher?)

Scott, Robert Haney and Kie Ann Wong, editors, 2004?, *The Hong Kong financial system*, 2<sup>nd</sup> edition (not published yet)

Yau, Richard, 1998, *Securities investment practice in Hong Kong*, Hong Kong Institute of Bankers.

### **Some interesting web sites (related to this course)**

[www.hkma.gov.hk](http://www.hkma.gov.hk) (Hong Kong Monetary Authority)

[www.bis.org](http://www.bis.org) (Bank for International Settlements located in Basle, Switzerland)

[www.kpmg.com.hk](http://www.kpmg.com.hk) (KPMG is a professional services firm that has survey data on the performance of Hong Kong banks)

[www.stern.nyu.edu/globalmacro](http://www.stern.nyu.edu/globalmacro) (Prof Noriel Roubini's global macroeconomic and financial policy web site)

[www.pbc.gov.cn](http://www.pbc.gov.cn) (People's Bank of China—China's central bank)

[www.erisk.com](http://www.erisk.com) (ERisk is a firm that provides risk management services; access to much of the information on the site requires registration)

[www.financeasia.com](http://www.financeasia.com) (site contains current news and other information about the financial services industry)

[finance.yahoo.com](http://finance.yahoo.com) (financial market quotes, data, information and analysis)

[finance.yahoo.com.hk](http://finance.yahoo.com.hk) (same as [finance.yahoo.com](http://finance.yahoo.com), except it's in Cantonese)

[www.hkex.com.hk](http://www.hkex.com.hk) (Hong Kong Exchange—cash and derivative securities trading)

[www.hkib.org](http://www.hkib.org) (Hong Kong Institute of Bankers—publications for sale)

### **Homework assignments**

- #1 Financial analysis of a financial institution (commercial bank, investment bank, mutual fund, or insurance company)
- #2 Management of interest rate risk (risk identification, measurement, and reduction through hedging)
- #3 Management of market risk (bonds, equities, currencies, trading portfolio) and foreign exchange risk (balance sheet and income statement risks)