



Seminar in Financial Institutions Finance 656

Spring 2007

College of Business Administration
San Diego State University

Instructor

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Course Objective

The primary objective of this course is to develop skills to manage financial institutions, including the mastery of techniques to measure and manage financial risks. A secondary objective is to appraise the impact of the evolving regulatory and technological environment on the management of financial institutions.

Primary Learning Outcomes

After completing this course, you should be able to:

1. Calculate appropriate measures of key risks facing financial institutions.
2. Describe and appraise alternative techniques to manage prevalent risks facing financial institutions.
3. Create simple models to estimate value-at-risk.
4. In the context of a bank management simulation, develop and implement lending, investments, deposits, capital, and risk management strategies to create value.
5. Discuss the impact of evolving regulatory and technological environments on the management of financial institutions.

Course Prerequisites

Business Administration 665 or equivalent

Required materials

Anthony Saunders and Marcia Millon Cornett, *Financial Institutions Management: A Risk Management Approach*, 5th edition, McGraw Hill / Irwin.

Terry Beals. Stanford Bank Game Version 12 Players' Manual, Executive Edition.

Blackboard

Course material, including my lecture notes, will be provided on Blackboard, the course management system used by SDSU. In addition to posting material, we will use the discussion board and grade book features of the system. To access Blackboard at SDSU, go to <http://blackboard.sdsu.edu>

Course Activities

Text Readings

The Saunders/Cornett text describes the theory and practice of providing financial services from a risk management perspective. The listed reading assignments should be completed prior to class meetings.

Bank Management Simulation

We will play a bank management game beginning in week 4. Groups of 4-6 students will manage a bank in a simulated competitive market. Decisions on strategy, pricing, capital, investments, and risk management will be made following an analysis of your bank's financial position and markets. Our class session during Week 4 will be devoted to introducing the game and organizing teams. Five rounds of the game will be played. A shareholders' meeting will be held the last class meeting during which each team will discuss its decisions and performance. The grade for the game will be based on three components: the bank's performance (shareholders' returns) relative to the performance of the other banks, the group's ability to explain and justify their decisions, and an individual component. Additional details on this assignment will be provided in class.

Graded Homework Assignments

Three individual homework assignments will be graded. All consist of sets of end-of-chapter problems from the Saunders/Cornett text. They are due on the dates listed on the schedule. Late assignments will not be accepted.

Assignment 1 Chapter 7 #26; Chapter 8, #19, 26; Chapter 9, #22, 27(a-c)
Assignment 2 Chapter 10 #4; Chapter 11, #27, 30;
Assignment 3 Chapter 13, #11; Chapter 15 #13 ; Chapter 20, #31

Examination

The comprehensive final examination will cover material from the textbook and lectures and will consist of problems, short-answer, and essay questions. It will be in a closed-book and closed-notes format.

Quizzes

Two in-class quizzes will be administered and will be in closed-book and closed-notes format. Many of the questions will be similar to the end-of-chapter problems and practice questions posted on blackboard.

Participation

Every class member is expected to participate in a variety of course activities. In addition to participating in classroom discussions, Blackboard discussion boards will be created to allow class members to collaborate on solutions to end-of-chapter text questions. Your grade for participation will be based on the quality and quantity of your contributions to classroom and online group discussions.

Assessment

Course grades will be assigned in accordance with San Diego State University policy (see Graduate Bulletin, pp. 30-32). Your course grade will be based on five components with the following weights:

Bank Management Game	35%
Graded homework assignments	10%
Final exam	35%
In-class quizzes	15%
Participation	5%

Each exam and the project will be assigned a letter grade. The course grade will be based on the following distribution of the weighted average of the components.

A	3.80-4.00	C	1.85-2.14
A-	3.50-3.79	C+	2.15-2.49
B+	3.15-3.49	C-	1.50-1.84
B	2.85-3.14	D+	1.15-1.49
B-	2.50-2.84	D	0.85-1.14
		F	0.00-0.84

Tentative Schedule*

January 23	<p>Topics: Economic functions of financial institutions; Introduction to depository institutions</p> <p>Readings: Chapters 1, 2, 2a, 2b, 2c End-of-chapter (EOC) Questions: Chapter 1 - 4,5,6,14,16,21; Chapter 2 - 1,3,4,5,14,16,19,21</p>
January 30	<p>Topics: Introduction to non-depository financial institutions; Sector trends</p> <p>Reading: Chapters 3, 4, 5, 6 EOC Questions: Chapter 3 - 2,7,9,18,21,28; Chapter 4 - 4,7,11,21,22 Chapter 5 - 7,13,19; Chapter 6 - 2,8,11</p>
February 6	<p>Topics: Overview of risks of FIs</p> <p>Reading: Chapters 7 Skim chapters 21, 22, 23 EOC Questions: Chapter 7 - 1,2,3,6,15,16,18,19,21,24,25,27,29,30,32</p>
February 13	<p>Reading: Stanford Bank Game Manual Skim chapters 17, 18</p>

February 20	<p>Topic: Interest-rate risk Readings: Chapters 8, 8a, 8b EOC Questions: Chapter 8 - 5,11,16,21,31</p> <p>Quiz 1 (over chapters 1 through 6)</p>
February 27	<p>Topic: Interest-rate risk continued</p> <p>Readings: Chapters 9, 9a EOC Questions: Chapter 9 - 2,17,19,20</p> <p>Bank Game Practice Run decisions due</p>
March 6	<p>Topic: Market risk</p> <p>Readings: Chapter 10 EOC Questions: Chapter 10 - 3,7,14,16,20</p>
March 13	<p>Topic: Market risk – continued</p> <p>Bank Game round 1 decisions due</p>
March 20	<p>Topic: Credit risk</p> <p>Reading: Chapters 11(pp 259-291), 11a EOC Questions: Chapter 11: 10,18,20,26,32,37</p> <p>Homework assignment 1 due</p>
April 3	<p>Topic: Credit risk – continued</p> <p>Bank Game round 2 decisions due</p>
April 10	<p>Topics: OBSA, Foreign exchange risk</p> <p>Readings: Chapter 13, 13a, 15 Suggested Questions: Chapter 13: 8,14,19,27; Chapter 15: 7,8,12,20</p> <p>Homework assignment 2 due</p> <p>Bank Game round 3 decisions due</p>
April 17	<p>Topic: Capital, Futures and Forwards</p> <p>Readings: Chapter 20, 24 EOC Questions: Chapter 20: 7,11,26,27,28,29; Chapter 24: 5,9,10,17,18,35</p> <p>Bank Game round 4 decisions due</p>

April 24	<p>Topics: Futures and Forwards - continued</p> <p>Readings: Chapter 24</p> <p>EOC Questions: Chapter 24: 5,9,10,17,18,35</p> <p>Quiz 2 (over chapters 7 through 11)</p> <p>Bank Game round 5 decisions due</p>
May 1	<p>Topic: Swaps</p> <p>Reading: Chapters 26</p> <p>EOC Questions: Chapter 26: 4,9,14,15</p> <p>Homework assignment 3 due</p>
May 8	Bank Game Summary / Shareholders' Meeting
May 15	Final Exam 7 - 9 pm

* Changes, if any, will be announced in class.