**GEORGIA INSTITUTE OF TECHNOLOGY**

**Scheller College of Business**

**Management of Financial Institutions (MGT 3079)**

**Spring 2020**

Instructor: Manasa Gopal

Class Room: Room 202

Class Time: 6:30 PM – 9:15 PM (Wednesdays)

Instructor Office: College of Business, Room 408

Email: [manasa.gopal@scheller.gatech.edu](mailto:manasa.gopal@scheller.gatech.edu)

Office Hours: Wednesdays 5:30 PM – 6:30 PM (by appointment) in office or <https://bluejeans.com/1788187504/>

TA:

Email:

**Course Materials**

Required Reading:

1. *Wall Street Journal*
2. Additional readings may be handed out during the semester. These will include short articles from various practitioner journals.
3. Case Studies assigned to the course - <https://hbsp.harvard.edu/import/895723>

Recommended Reading:

1. *Financial Institutions Management: A Risk Management Approach,*

By Anthony Saunders and Marcia Millon Cornett,

McGraw-Hill (10th Edition)

ISBN: 9781260013825

**Course Objectives and Description**

The objective of this course is to introduce students to the role of bank and non-bank financial intermediaries and the management of their operations. The course will provide an introduction to the various kinds of financial institutions, discuss their operations, and highlight their differences from other forms of corporations. The focus of the course is to provide a detailed analysis of various techniques used to measure the unique risks faced by financial institutions. Special emphasis will be placed on the valuation of various fixed income securities which play a major role in the operation of the financial intermediaries. The course is structured into three parts: (a) introduction of various kinds of financial institutions, (b) measurement of various risks faced by these institutions, and (c) management and hedging of these risks.

**Grade Determination**

Please read the following very carefully. In the interest of being fair to all students, no exceptions will be made to the grading policy discussed below. Your grade in this course will be determined by your performance in a mini case study, a term project, two quizzes, class discussions on canvas, and your participation in class. Weights are assigned as follows:

|  |  |
| --- | --- |
| **Evaluation** | **Weight** |
| Term Project | 35% |
| Quiz (Best of two) | 30% |
| In-Class Participation (including case discussions) | 25% |
| Canvas Discussions | 10% |

In-class Participation points: I would like to encourage all of you to solve all problems during class and to raise your hand if you have the solution (or a question). This is a great way for you to keep up with the material, and to check what you did or did not understand. There is nothing to lose, it is totally fine if you have the wrong answer. If you do not miss more than 3 classes, you will receive 2.5% out of the 5% that participation contributes to the final grade. How to get more than 2.5%? For example, every time you solve a problem well, you can earn .5% of the final grade (maximum of 0.5% per class).

The other 20% of the participation grade will be based on your participation during the case discussions (4\*5%)

Canvas Discussions: I also encourage weekly discussions on Canvas based on topics covered in class or supplementary reading materials I will provide. Once again, the goal is not to be right but to discuss various thoughts, opinions, questions, or concerns on any of the topics in the course. You are also encouraged to share any relevant articles you find with the class. If you participate in all the weekly discussions, you will automatically receive 5% out of the 10%. Students that start new discussions, provide relevant material, or help solve doubts of fellow classmates will receive additional points. The goal is to promote active engagement between students outside class.

A: 90% and higher, B: 80% to 89.9%, C: 70% to 79.9%, D: 60% to 69.9%, F: Below 59.9%. Students will be evaluated relative to the performance of the other students in the course.

**Examinations**

Both of the quizzes will be taken by the students as per the course schedule. No make-up quiz will be given. A grade of zero will be assigned for each quiz that is missed without the instructor’s *prior* permission. There will be absolutely no exceptions to this rule.

All re-grade requests must be made in writing within one week of the day the exams are returned. If you submit a question to be re-graded, your ***entire*** exam may be re-graded.

Any violations of the Georgia Tech Honor Code system will be reported and appropriate disciplinary action will be taken.

The final course grade will consider the best of the two quiz scores.

**Class Etiquette**

I want this course to be as interactive as possible. Feel free to stop me during lectures with your questions and comments.

I ask that you follow some simple courtesy rules during in-person classes:

1. Arrive on time
2. Do not leave during class
3. Do not disturb other students
4. Do not use laptops, tablets, or phones except for taking notes or answering polls, and make sure that all your electronic devices are in silent mode
5. Everyone is requested to wear a face covering while inside any campus facilities/buildings, including during in-person classes, and to adhere to social distancing of at least 6 feet

You are highly encouraged to take part in [asymptomatic surveillance testing](https://nam12.safelinks.protection.outlook.com/?url=https%3A%2F%2Fhealth.gatech.edu%2Fcoronavirus%2Ftesting&data=04%7C01%7Cmanasa.gopal%40scheller.gatech.edu%7Cfb5aeada98354df7223308d8b711925d%7C482198bbae7b4b258b7a6d7f32faa083%7C0%7C0%7C637460633383076396%7CUnknown%7CTWFpbGZsb3d8eyJWIjoiMC4wLjAwMDAiLCJQIjoiV2luMzIiLCJBTiI6Ik1haWwiLCJXVCI6Mn0%3D%7C1000&sdata=lpsqYvxL62KKzpugXa0qZ5YK1olM5la6zJI1U46clxA%3D&reserved=0) on campus. You should get tested **as soon as possible** once you arrive, and then again within **3-5 days**, and be sure to get back into the routine of testing weekly. In addition, please complete the [daily self-checklist](https://nam12.safelinks.protection.outlook.com/?url=https%3A%2F%2Fhealth.gatech.edu%2Fcoronavirus%2Fdaily-checklist&data=04%7C01%7Cmanasa.gopal%40scheller.gatech.edu%7Cfb5aeada98354df7223308d8b711925d%7C482198bbae7b4b258b7a6d7f32faa083%7C0%7C0%7C637460633383076396%7CUnknown%7CTWFpbGZsb3d8eyJWIjoiMC4wLjAwMDAiLCJQIjoiV2luMzIiLCJBTiI6Ik1haWwiLCJXVCI6Mn0%3D%7C1000&sdata=8O1AbcIchyxgfq2l5QyPV5mSCBZpIfK0hy7t7dUt53M%3D&reserved=0) before coming to campus each day.

**Special Circumstances**

It is the student’s responsibility to inform the instructor during the first week about any special needs relating to disabilities.

Students may request an accommodation through the Office of Disability Services (ODS) due to 1) presence of a condition as defined by the Americans with Disabilities Act (ADA), or 2) identification as an individual of higher risk for Covid-19, as defined by the Centers for Disease Control (CDC). Registering with ODS is a 3-step process that includes completing an application, uploading documentation related to the accommodation request, and scheduling an appointment for an “intake meeting” (either in person or via phone or video conference) with a disability coordinator.

 If you have been approved by ODS for an accommodation, I will work closely with you to understand your needs and make a good faith effort to investigate whether or not requested accommodations are possible for this course. If the accommodation request results in a fundamental alteration of the stated learning outcome of this course, ODS, academic advisors, and the school offering the course will work with you to find a suitable alternative that as far as possible preserves your progress toward graduation.

**Communication**

We will use Canvas for most communication in this course. Quizzes, discussions, and grades will be distributed through Canvas. Please monitor the emails sent out through Canvas.

Ensure you have enabled notifications on Canvas for announcements. Additionally, please:

1. Create a PollEverywhere account using your GT ID - <https://pollev.com/home>

For confidential questions (for example, related to your grade or performance in the class), please send me an email and I will be happy to help you. In addition, we can always arrange a meeting by email.

For personal questions addressed via email, I will usually respond within 24 hours (except weekends).

**Students with Disabilities**

If you are a student with learning needs that require special accommodation, contact the Office of Disability Services at (404)894-2563 or <http://disabilityservices.gatech.edu/>, as soon as possible, to make an appointment to discuss your special needs and to obtain an accommodations letter. Please also e-mail me as soon as possible in order to set up a time to discuss your learning needs.

**What you can Expect from me**

I will try to communicate with the class early and often. My goal is to ensure you have the slides for each lecture before the class. I will also send a weekly email with a summary of what we have learned in the course up till that point and the plan for the coming week.

As appropriate, every week or for every module, I will kickstart a discussion on Canvas with links to additional articles, videos, podcasts, etc. to further your understanding on the topics we cover in class.

**Other Important Information**

*Recordings*

Our class sessions will be audio visually recorded for use by enrolled students. Class recordings, lectures, and other classroom presentations presented through video conferencing and other materials posted on Canvas are for the sole purpose of educating the students enrolled in the course. Students may not record or share recordings, including screen capturing. Exams and tests may require students to engage the video camera, but those recordings will not be shared with or disclosed to others without consent unless legally permitted. Students who participate with their camera engaged or utilize a profile image are agreeing to have their video or image recorded. Such recording will not be shared outside of the class participants.

## *Academic Integrity*

Georgia Tech aims to cultivate a community based on trust, academic integrity, and honor. Students are expected to act according to the highest ethical standards. For information on Georgia Tech's Academic Honor Code, please visit <http://www.catalog.gatech.edu/policies/honor-code/> or <http://www.catalog.gatech.edu/rules/18/>.

Any student suspected of cheating or plagiarizing on a quiz, exam, or assignment will be reported to the Office of Student Integrity, who will investigate the incident and identify the appropriate penalty for violations.

*Other Questions*

Please read the FAQs on Canvas carefully before contacting me

**Course Outline (Tentative: Subject to Change)**

Class 1 (Wednesday, January 12)

* Introduction
  + General outline of class
  + Exam policies
  + Course Expectations
* Introduction to Financial Institutions

Class 2 (Wednesday, January 19)

* Case Study --- The U.S. banking panic of 1933 and FDIC
  + Understanding current deposit insurance structure
* Course Introduction
  + Depository Institutions

Class 3 (Wednesday, January 26)

* Course Introduction
  + Depository Institutions
  + Regulation
* Federal Reserve
  + Monetary Policy

Class 4 (Wednesday, February 3)

* Federal Reserve
  + Structure, role
  + Regulation
* Interest Rate Risk
  + Risks of FIs
  + Loanable Funds Theory

Class 5 (Wednesday, February 9)

* Interest Rate Risk
  + Term Structure
  + Forward rates
  + Examples
* Interest Rate Risk
  + Measuring interest rate risk

Class 6 (Wednesday, February 16)

* Interest Rate Risk – theory to practice
  + Hedging
  + Convexity
  + Examples
* **QUIZ I**

Class 7 (Wednesday, February 23)

* Guest Lecture
* Credit Risk
  + Basics

Class 8 (Wednesday, March 3)

* Credit Risk
  + Measuring credit risk
* Credit Risk
  + KMV Model

Class 9 (Wednesday, March 9)

* Should Lehman Brothers have been bailed out?
  + Case study
* 2008 Financial Crisis
  + MBS
  + Causes and effects of the crisis
  + Role of banks

Class 10 (Wednesday, March 16)

* Bank of America acquisition of Merrill Lynch
  + Case study
* Post-crisis Regulation
  + Dodd Frank, Basel

Wednesday, March 23

* **SPRING BREAK – NO CLASSES**

Class 11 (Wednesday, March 30)

* GE and the shadow banking landscape
  + Case study
* Growth of Nonbanks
  + How post-crisis regulation fueled shadow banking
  + Impact on mortgage markets, business lending

Class 12 (Wednesday, April 6)

* Fintech guest lecture
* **QUIZ 2**

Class 13 (Wednesday, April 13)

* Investment Banking
* Funds
  + Mutual funds, hedge funds
  + PEs

Class 27 (Wednesday, April 20)

* Fintech guest lecture
* Current Events
  + COVID-19
  + China Evergrande Group
  + Credit Suisse Archegos scandal
  + Etc.

**Presentation Rubrics**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | **Criteria** | | | | **Points** |
| 1 | 2 | 3 | 4 |  |
| **Organization** | Audience cannot understand presentation because there is no sequence of information | Audience has difficulty following presentation because presenters jump around | Group presents information in logical sequence which audience can follow | Group presents information in logical, interesting sequence which audience can follow |  |
| **Content Knowledge** | Group does not have grasp of information; group cannot answer questions about subject | Group is uncomfortable with information and is able to answer only rudimentary questions | Group is at ease with content, but fails to elaborate | Group demonstrates full knowledge (more than required) with explanation and elaboration |  |
| **Visuals** | Group used no visuals | Group occasionally used visuals that rarely supports text and presentation | Visuals related to text and presentation | Group used visuals to reinforce screen text and presentation |  |
| **Mechanics** | Presentation had four or more spelling errors and/or grammatical errors | Presentation had three misspellings and/or grammatical errors | Presentation has no more than two misspellings and/or grammatical errors | Presentation has no misspellings or grammatical errors |  |
| **Delivery** | Mumbling, speaking too quietly for students in the back of the class to hear | Incorrectly pronounces terms, which cause difficulty in following presentation | Clear voice so that students in the back of the class can follow, mostly correct pronunciation | Clear voice and correct, precise pronunciation of terms |  |
| **Body Language and Audience Engagement** | Infrequent eye contact, pace not adapted to the audience, little or no sense of audience's engagement | Inconsistent use of eye contact, pace partially adapted to audience, partially aware of audience's engagement | Appropriate use of eye contact, generally understandable pace adapted to the audience, sufficiently aware of audience engagement | Use of effective eye contact, understandable pace adapted to the audience, consistently aware of audience engagement |  |
|  | | | | **Total** |  |

**Report Rubrics**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | **Criteria** | | | | **Points** |
| 1 | 2 | 3 | 4 |  |
| **Introduction / Topic** | Questions or problems are **instructor generated** | Group **requires prompt(s)** to generate questions or problems | Group **generates questions** and/or problems | Group properly generates questions and/or problems **around a topic** |  |
| **Conclusions Reached** | **A** conclusion is made from the evidence offered | **Some** detailed conclusions are reached from the evidence offered | **Several** detailed conclusions are reached from the evidence offered | **Numerous** detailed conclusions are reached from the evidence offered |  |
| **Information Gathering** | Information is gathered from a **single** source | Information is gathered from **limited** electronic and non-electronic sources | Information is gathered from **multiple** electronic and non-electronic sources | Information is gathered from multiple electronic and non-electronic sources and **cited properly** |  |
| **Summary Paragraph** | **Weakly** organized | Well organized, but demonstrates illogical sequencing **and** sentence structure | Well organized, but demonstrates illogical sequencing **or** sentence structure | Well organized, demonstrates **logical** sequencing, and sentence structure |  |
| **Punctuation, Capitalization, and Spelling** | There are **four or more** errors in punctuation and capitalization | There are **two or three** errors in punctuation and/or capitalization | There is one error in punctuation and/or capitalization | Punctuation and capitalization are **correct** |  |
|  | | | | **Total** |  |

**Peer Evaluation Form**

In a perfect world, all group members contribute an equal amount of work. However, we do not exist in a perfect world. As such, it is theoretically (and practically) possible that a group member (or several group members) may “free-ride” and benefit from other group members hard work. At the end of the quarter, each group member will be required to divide an imaginary bonus pool of $120,000. Each bonus allocation must be rounded to the nearest thousand dollars. The following is an example of how a three-person group might be evaluated. The group members are Sarah, Pete, and Felix. If everyone contributes equally, the group will divide the pool equally and the group grade will be each person’s individual grade. However, as luck might have it, Felix is a slacker. He is always late to group meetings (when he actually decides to come, which is not often). When he does arrive, he babbles on and on about another class, Cost Accounting. Not only does his behavior make the meetings last too long, it also hurts work productivity. While Felix believes he deserves a “good” grade and divides the pool equally, Sarah and Pete feel that they should receive larger salaries since they had to work harder to compensate for Felix’s poor work ethic. The following table exhibits the salary divisions that each group member proposed.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | Sarah’s Pool | Pete’s Pool | Felix’s Pool | Totals |
| Sarah | $40,000 | $45,000 | $40,000 | $125,000 |
| Pete | $49,000 | $45,000 | $40,000 | $134,000 |
| Felix | $31,000 | $30,000 | $40,000 | $101,000 |
| Totals | $120,000 | $120,000 | $120,000 | $360,000 |

Now assume that the group has been assigned an 83 on the project. Half of the group grade will be the raw group score that will be averaged with the individual contribution score. Sarah will receive 83 x (125,000/120,000) or 86.5 for her individual contribution score. Pete will receive 83 x (134,000/120,000) or 92.7. Felix will receive 83 x (101,000/120,000) or 69.9. The final grade (on the group project) for Sarah is (83 + 86.5)/2 = 84.75. Pete’s final grade is 87.85 (83 + 92.7)/2 and Felix receives a grade of 76.45, obtained as (83 + 69.9)/2. While this methodology seems complicated, hopefully this will mitigate free rider problems. Group members are fictitious. Any resemblance to actual persons is coincidental.