

# Global Banking and Financial Markets

Spring 2014

New York University – Abu Dhabi

Course number: ECON-AD 352

Credit Hours: 4

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Professor Ted Chu

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Office hours: MW 3:00-4:00pm

Class time/location: TuTh 9:55-11:10am/DTC N-209

Prerequisites: None

## Course Description:

This course will cover:

- The history and evolution of today's enormous global financial markets.
- The importance of these markets in raising capital for governments, businesses and entrepreneurs
- The role and functions of global banking institutions and the products and services they provide
- The causes and outcomes of the 2007-2008 global financial crisis
- How global banks are regulated and controlled
- Global banks and the Eurozone financial crisis
- The prospect of Chinese RMB as a global currency

## Learning Objectives and Outcomes:

Students who successfully complete this course will be able to:

- Understand the dynamics of openly competitive financial markets and their impact on global economy
- Synthesize the requirements of capital users in global financial

markets with those of the providers of capital

- Appreciate the connections between government finance, currency values and globally integrated financial markets
- Identify the risks involved in competitive banking transactions, and how these are controlled
- Analyze the public policy issues associated with banks that may be “too big to fail”
- Recognize how difficult and complex effective financial market regulation can be

#### Teaching and Learning Mechanisms

- Combination of lectures and case discussions
- Guest speaker from Abu Dhabi Investment Authority, one of the world’s largest Sovereign Wealth Funds
- Guest speaker from Abu Dhabi Commercial Bank, a major UAE bank.

#### Instructor:

- Ted H. Chu, Professor of Practice, Economics
- Former Chief Economist of Abu Dhabi Investment Authority

#### Text and Cases:

- *Global Banking* (Smith, Walter and DeLong, Oxford University Press, 2012)
- Cases and other reading materials will be distributed at Class course site

#### Group Presentations:

- A few groups will be formed to study the global strategies, capabilities, strengths and weaknesses of global banks
- Presentations will be made in class during second half of the term

#### Grading:

- Midterm exam – 20%

- Group Presentation – 20%
- Final exam – 40%
- Individual class participation – 20%

### Course Outline

#### Week of Feb 2, 2014

(1) **Introduction: The Global Banking Crisis of 2007-2008**

Read: *Paper Fortunes: Modern Wall Street; Where It's Been and Where It's Going* (Chs 1 & 12)

Question: What were the causes and consequences of the Global Financial Crisis of 2007-2008?

(2) **Capital Markets: The rise of global markets and the effects of the crisis on them**

Read: *Global Banking* (Chs 1 & 12)

Question: What were the major “game changing” events that most shaped the evolution of global capital markets and the industry that serves them?

#### Week of Feb 9

(1) **Debt Capital Markets**

Read *Global Banking* (Chs 4 & 6)

Question: How do US and International debt markets differ, and how are these differences reconciled?

(2) **Case: Federal National Mortgage Assn A\$ Bond Issue**

Question: What were the major pieces of the FNMA transaction that SBC Warburg had to pull together for it to work?

### Week of Feb 16

- (1) Case: *Autostrade Debt Financed Takeover*

Read: *Global Banking* (Ch 3)

Question: What different types of financing did the Autostrade deal include?

- (2) **Equity Capital Markets**

Read: *Global Banking* (Ch 5)

What did European equity markets lag so far behind the US market until the mid 1980s, and what changed so they could catch up?

### Week of Feb 23

- (1) Case: *Deutsche Telekom*

Question: What's involved in privatizing a large state-owned enterprise such as Deutsche Telekom?

- (2) Case: *Glencore International*

Question: Why did Glencore choose to bring its IPO in the Hong Kong market? What were its alternatives?

### Week of Mar 2

- (1) **Mergers and Acquisitions**

Read: *Global Banking* (Ch 7)

Question: What causes merger "booms" and why were they so slow in coming to Europe?

- (2) Case: *The Acquisition of Martell*

Question: How well did Monsieur Martell manage the process of selling the family company? What could he have done differently?

### Week of Mar 9

- (1) **Privatization**

Read: *Global Banking* (Ch 8)

Case: *The Sale of Jenapharm*

Question: How did the German government manage to sell thousands of unprofitable enterprises in its efforts to "privatize" all of East Germany?

- (2) **Evolution of Banking in USA, Europe and Japan**

Read: *Paper Fortunes*, (Ch 5)

Question: How and why did US banks evolve from “public utilities” into “growth companies?”

### **Week of Mar 16**

#### **Review and Midterm Exam**

Review readings

### **Week of Mar 30**

#### **(1) Financial Sector in Emerging Markets**

Read: Financial Sector Regulation and Reforms in Emerging Markets: An Overview, by Eswar S. Prasad

Read: Financial Development: A Broader Perspective, by  
Richard Reid

Question: How has EM's financial sector performed in facilitating the country's growth? What should be done?

#### **(2) European Banking and the Euro**

Read: “The Agony of the Euro” by Roy Smith

Read: *The Economist*: “Made in Brussels”

Question: How do Europe's present economic and political difficulties affect Global Banks?

### **Week of April 6**

#### **(1) Private Banking**

Read: *Global Banking* Ch11, *Paper Fortunes* Ch 10

Question: Why are the Swiss the role models for private banking? How might this change in the future?

#### **(2) Guest speaker: Stephane Arrouays, Banking sector strategist, ADIA**

Question: How and why are Global Banks involved with Sovereign Wealth Funds?

### **Week of April 13**

#### **(1) Banking in Emerging Markets**

Case: *Republic of Argentina Debt Exchange Offer*

Question: What were the causes and results of Argentina's debt exchange offer?

(2) Banking in China

Read: *The Economist*: "Storing Up Trouble"

Question: What major risks and challenges face Global Banks seeking to do significant business in China?

**Week of April 20**

(1) **Principles of Financial Regulation**

Read: *Global Banking* (Ch 15)

Case: *Citigroup Jan 2005*

Question: Why do Global Banks need to be regulated differently from industrial companies? What are the "trade-offs" involved?

(2) **Re-regulation After the Crisis**

Read: "Global Banking After the Cataclysm" by Roy Smith

Question: What major obstacles do Global Banks have to face to adapt to the new business environment after the crisis?

**Week of April 27**

(1) **Adapting to the New Banking Environment**

Read: "Is Trading Doomed to Unprofitability Under Basel III?" by Brad Hintz

Question: How will the regulatory measures imposed after the crisis affect trading and risk taking by Global Banks?

(2) **Hedge Funds**

Read: "Fixed income to hedge funds: Passing the baton" by Cesare Valtieri and Fabio R. J. Trussardi

Question: What are the goals and promises of hedge funds? Have they delivered?

**Week of May 4**

(1) **Entrepreneurial Finance**

Read: "The Entrepreneurs" by Roy Smith from *The Wealth Creators*

Question: What explains entrepreneurial success? How important is it to national economic growth?

(2) Case: *Oriflame*

Question: How important have Global Bankers been in the career of Jonas Jochnik?

**Week of May 11**

(1) **Group Presentations on Global Banks**

(2) **Course wrap up**

Read: *Paper Fortunes* Ch 13

Question: Where are future career opportunities in finance likely to be in Global Banking?

**Week of May 18** Final Exam