

**The University of Texas at Dallas
School of Management
Spring 2012**

**FIN 6320
Financial Markets and Institutions**

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Course Description:

This course is designed to teach the structure and functions of major U.S. financial institutions (FIs) from a risk management approach, and in the setting of the risk characteristics of the recent financial markets. The financial institutions we will survey include commercial banks, investment banks, insurance companies, securities firms, mutual funds, hedge funds, and finance companies. The course consists of two major parts:

We will first take a close look at each type of financial institutions. The objective is to understand their functions in the economy, their business models, their balance sheet structure, the economic forces behind their transformations, and the regulatory environment in which they operate. In this part, we will qualitatively characterize the risks these institutions face and how the risks are associated with, and contributed to the recent financial crisis in 2008-2009.

In the second part, we will focus on quantitatively analyze the risks faced by these FIs. In particular, we study interest rate risk, market risk and credit risk. Our emphasis will be on the analytical models for measuring these risks and ways of managing these risks. We will also spend time to discuss in more details the current financial crisis and corporate governance in financial firms.

Textbook & Course Portal:

Saunders, Anthony, and Marcia M. Cornett, *Financial Institutions Management: A Risk Management Approach*, 7th edition, McGraw-Hill/Irwin (Required)

The UTD eLearning portal will be the primary way of communication. Course materials and announcements will be posted on the portal.

Requirement and Grading:

Your final grade will be a weighted average of the following five components:

Class participation 10%
Problem sets 10%
Mid-term Exam 20%
Group Project and Presentation 30%
Final Exam 30%

Class participation: You are expected to come to the class. Contributions to class discussion and question/answer sections or other forms of communications will be rewarded. Distracting behavior in class, such as chatting, sleeping, etc. will be punished.

Problem Sets: There will be two problem sets, one before the midterm and one after. Problem sets will be distributed in class. You are reminded to submit your homework at the *beginning* of the class on the due date. If an assignment is turned in late, it will not be accepted and you will not receive a credit for your work. Solutions to assignments will be provided after the due date. The solutions to the end-of-chapter problems in the textbook will be available for self-learning. You are encouraged to try the end-of-chapter problems.

Exams: There will be an in-class midterm exam and a final exam. Both exams are closed book and closed notes. Calculators approved by the Registration and Examinations Section of the University are allowed. Please notice that *no make-up test* will be given except for extreme situations. If you do not have a legitimate reason to miss an exam, you will be assigned a score of zero for the test.

Group Project and Presentation: The group project involves developing a detailed presentation to analyze the role and implications of financial institutions based on one of the significant events in the recent financial crisis of 2008-2009. More details and instructions about the project will be discussed after the Mid-term exam. The presentations of your project will be in-class. Each team should prepare a 20-minute presentation and a 10-minute Q&A session following the presentation.

Honor code: You are reminded of University policy and regulations on honesty in academic work. You are expected to do your work in a manner consistent with the guidelines of the Honor System.

Tentative Course Outline:

The following schedule is a tentative outline of the course. More details will be updated during the semester as we proceed.

Part I: Introduction to financial institutions and markets

Week 1, Jan 17: Overview of Financial Institutions and Markets

Primary readings: Chapter 1

Week 2, Jan 24: Commercial Banks

Primary readings: Chapter 2, Handout “Monetary policy tools”

Week 3, Jan 31: Insurance Companies

Primary readings: Chapter 3, Handout “Financial statement analysis”

Supplementary readings: Chapter 6

Week 4, *Feb 7*: Investment Banking

Primary readings: Chapter 4

Problem Set 1

Week 5, *Feb 14*: Mutual Funds and Hedge Funds

Primary readings: Chapter 5

Problem set 1 due

Week 6, *Feb 21*: Mortgage Market and Securitization

Primary readings: Chapter 26

Supplementary readings: Chapter 25

Part II: Measuring and managing risk

Week 7, *Feb 28*: Interest Rate Risk I

Primary readings: Chapter 7, Chapter 8

Week 8, *Mar 6*: Mid-term Exam

Week 9, *Mar 13*: Spring Break

Week 10, *Mar 20*: Interest Rate Risk II

Primary readings: Chapter 9

Week 11, *Mar 27*: Market Risk

Primary readings: Chapter 10

Week 12, *Apr 3*: Credit Risk

Primary readings: Chapter 11

Supplementary readings: Chapter 12

Week 13, *Apr 10*: Credit Rating Agencies

Problem set 2

Week 14, *Apr 17*: Team presentation I

Problem set 2 due

Week 15, *Apr 24*: Team presentation II

Week 16, *May 1*: Corporate Governance and Financial Institutions and Course Review Session