Class Meeting Time and Classroom: Tuesdays and Thursdays,
LEC 4359: 8:00 – 9:20 a.m. in Schoenbaum Hall 215
LEC 4360: 9:35 – 10:55 a.m. in Schoenbaum Hall 220
LEC 4403: 11:10 a.m. – 12:30 p.m. in Mason Hall 405

Professor: Isil Erel
Office: 832 Fisher Hall
Phone: 614-292-5174
Email: erel@fisher.osu.edu
Web: http://fisher.osu.edu/fin/faculty/erel/

Office Hours: 1:30-2:30 p.m. on Wednesdays or by appointment
Course Webpage: on Carmen (https://carmen.osu.edu/)

Course Description

This course will introduce students to financial institutions and their important economic function. The course will examine the structure and operation of financial institutions in the U.S., with particular attention paid to the various risks and complex challenges facing these institutions. While there are no easy solutions to the challenges and problems faced by financial institutions, we will cover these issues in depth, with the objective of developing a solid understanding of them.

Prerequisites

There are no official prerequisites for this course. Students are expected to have a basic knowledge of finance, accounting, and statistics.

Required Reading

1. Course Packet (one case only), available at HBS Publishing. Please follow this link https://cb.hbsp.harvard.edu/cbmp/access/38650373 and follow the instructions below:
   - Click “Register Now.”
   - Enter name, email, and educational program, and create a username and password.
   - Click “Register.”
   - Login with the username and password you just created.
   - Purchase the “Chase Manhattan Corp” case.

Recommended Readings


2. Supplemental readings are available on course webpage. Please see the tentative course outline below for a list of the readings. Also note that readings that are available on the course website are optional.

Students are strongly encouraged to read financial press, such as the *Wall Street Journal* or *Financial Times*, to reinforce the applicability of the topics that we cover in class.

**Pedagogy**

The course will be structured as a combination of lectures, discussions, and one case. I will post my PowerPoint slides on the course website on Carmen before each class to help you follow the lectures and take notes. Please remember that posted slides are not complete. For completeness, you should attend the lectures. Please also note that guest speakers from KeyBank (Don Kimble, Chief Financial Officer and Doug Schosser, Chief Accounting Officer) will give one of the lectures.

**Grading**

The final course grade will be allocated as follows:

<table>
<thead>
<tr>
<th>Component</th>
<th>Percentage</th>
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<tbody>
<tr>
<td>Individual Class Participation</td>
<td>10%</td>
</tr>
<tr>
<td>Homework</td>
<td>5%</td>
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<tr>
<td>Case</td>
<td>10%</td>
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<tr>
<td>Exam I</td>
<td>35%</td>
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<tr>
<td>Exam II</td>
<td>40%</td>
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**Class Participation:** Students are expected to attend each class in timely fashion and take part in discussions. Class participation will be graded based on my assessment of both the quantity and quality of an individual’s contribution to case and lecture discussions.

Please choose a seat for the entire term, no later than the second-class session. This makes it easier for you to interact during class discussions and easier for me to facilitate grading for class participation.

**Case Write-up:** HBS case, “Chase Manhattan Corporation: The Making of America’s Largest Bank,” is available in the course packet and assigned for formal write-up. Instructions will be posted on Carmen. Please form a study group of 3 to 5 students for the case write-up. You can work with students from other sections as well. You must give me a list of your group members by the beginning of class on November 19 at the latest and groups may not be changed without my permission. If necessary, I will assign students to groups already formed, starting with the smallest groups. However, I would prefer you to find a team yourself (please talk with friends in the same classroom as soon as you can).

All groups should come fully prepared to discuss their case solution with the rest of the class and should hand in or email a typed case write-up (one per team) by 8:00am on December 8, the day we cover the case (you should also retain a copy for yourself for class discussion). Students in the later sections can email me a copy or leave a copy under my office door (832 Fisher Hall) before 8:00am that day.

Also, you will have the opportunity to evaluate your team members at the end of the quarter. Evaluation sheets with a detailed explanation will be posted on Carmen.
Homework Assignment: There will be one homework assignment only. It will be posted on the course website on Carmen, and will be due at the beginning of class on November 10. It is very important that you complete the assignment individually. I will also post sample problems from the textbook with solutions on Carmen.

Exams: There will be two exams. The first one is scheduled for November 12 in class. It will cover all material taught until the date of the exam. The second exam will be during the finals week. It will be comprehensive in scope including materials from every part of the course. Both exams will be closed-book. You can use nonprogrammable functions of a calculator.

Absences and Late Assignments

Absence from the exams will not be excused, except for the most serious circumstances. Such circumstances must be validated in writing by an appropriately accredited professional (e.g. medical doctor). Any unexcused absences in exams will result in a grade of zero. Late assignments will not be accepted for credit, except for the most serious reasons as described above. As a matter of professional courtesy, please notify me in advance if you are unable to attend a particular class.

Regrading Policy

Grading errors will be corrected. All regrade appeals must be submitted within one week after the graded test is returned. Any exam submitted for regrading of a question is subject to complete regrade. As a result, the regredated score may increase, stay the same, or decrease after a careful consideration. I will not consider any regrade requests after the one-week deadline has passed.

Disenrollment Policy

Fisher College of Business strongly enforces University attendance policies. As per University rule 3335-8-33 (http://trustees.osu.edu/rules/university-rules/rules8/ru8-33.html), any student may be disenrolled from a course for failure to attend by the first Friday of the term, or by the 3rd instructional day of the term, or by the second class meeting, whichever occurs first.

Disability Services

The Office of Disability Services verifies students with specific disabilities and develops strategies to meet the needs of those students. Students requiring accommodations based on identified disabilities should contact the instructor at the beginning of the quarter to discuss his or her individual needs. All students with a specific disability are encouraged to contact the Office of Disability Services to explore the potential accommodations available to them.

Academic Misconduct

All students are expected to abide by the Fisher College Honor Code: “As a member of the Fisher College of Business Community, I am personally committed to the highest standards of behavior. Honesty and integrity are the foundations from which I will measure my actions. I will hold myself accountable to adhere to those standards. As a future leader in the community and business environment, I pledge to live by these principles and celebrate those who share these ideals.” All students are also expected to adhere to the University’s Code of Academic Integrity. Academic misconduct will not be tolerated. According to the university rules, all suspected cases of academic misconduct will be reported to the Committee on Academic Misconduct.
**Tentative Course Outline**

This outline is tentative and subject to change. Please refer to the course website on Carmen for updates on readings, homework problems, and the case assignment. It is the students’ responsibility to check the course website for updates and announcements.

**Class 1  
Course Overview and Introduction**  
**October 20**

**Topics:**  
Course Organization and Requirements  
Introduction to Financial Institutions

**Recommended Readings:**
Saunders & Cornett: *Financial Markets and Institutions: A Risk Management Approach* (referred to as “S&C” below) Ch. 1  
Saunders & Cornett: *Financial Markets and Institutions* (referred to as “S&C (Alternative)” below) Ch. 1  
Financial Intermediation as Delegated Monitoring: A Simple Example (Diamond), *RFB of Richmond Economic Quarterly*, 1996 [Link at Course Website (referred to as “CW” below)]

**For Some Examples of Recent Academic Research:**


Governance, Risk Management, and Risk-Taking in Banks (Rene Stulz), 2014, Ohio State University Working Paper

Banks Are Where Liquidity Is (Oliver Hart and Luigi Zingales), 2014, Harvard University Working Paper

**Class 2  
Commercial Banks**  
**October 22**

**Topics:**  
Functioning of the Commercial Banks  
Financial Statements and Analysis

**Recommended Readings:**
S&C Ch. 2, Appendix 2A, and Appendix 2B  
S&C (Alternative) Ch. 11 & 12  
Barbarians at the Vault, *The Economist*, 2008 [CW]  
2014 Loan Primer, S&P [CW]  
Lessons from the Great Credit Crisis, S&P [CW] (not posted on Carmen)

**Class 3  
Other Lending Institutions**  
**October 27**

**Topics:**  
Saving Institutions  
Credit Unions  
Finance Companies
Recommended Readings:
S&C Ch. 2 and Ch. 3
S&C (Alternative) Ch. 14
Savings and Loan Crisis (Ely), The Concise Encyclopedia of Economics [CW]

Classes 4&5 Bank Regulation (Deposit Insurance & Capital Requirements)

October 29 & November 3

Topics: Creation of FDIC
Moral Hazard due to Deposit Insurance
Savings and Loan Crisis
Capital Requirements (Basel Capital Accords)

Recommended Readings:
S&C Ch. 19 and Ch. 20
S&C (Alternative) Ch. 13
Ticker Cushions, When You’re Ready, Economist.com, 2010 [CW]

Classes 6&7 Risks of Financial Institutions with a Special Focus on Credit Risk
November 5 & 10

Topics: Interest Rate Risk
Credit Risk
Market Risk
Off-Balance-Sheet Risk
…

Recommended Readings:
S&C Ch. 7, 10, and Appendix 11A
S&C (Alternative) Ch. 19 and 20

Note: Problem Set 1 is due at the beginning of Class 7 on 11/10!

Class 8 IN-CLASS MIDTERM EXAM
November 12

Class 9 Liquidity Risk; Federal Reserve System
November 17

Topics: Federal Reserve System
Liquidity Creation
Managing Liquidity
1998 Liquidity Crises

Recommended Readings:
S&C Ch. 12
S&C (Alternative) Ch. 4
How do Banks Manage Liquidity Risk? Evidence from the Equity and Deposit Markets in the Fall of 1998 (Gatev, Schuermann, and Strahan), NBER, 2005 [CW]

Classes 10&11  Insurance Companies, Mutual Funds, and Hedge Funds
November 19 & November 24

Topics:  
Risk and Insurance  
Investment Companies

Recommended Readings:
S&C Ch. 5 & Ch. 6  
S&C (Alternative) Ch. 15 & Ch.17  
A Lively Market in ‘Death Bonds’ (Pleven and McDonald), WSJ, 2007 [CW]  
Investment Company Fact Book, Investment Company Institute, 2015 [CW]

Class 12  Risks of Financial Institutions from Practitioners’ Perspective
(by GUEST SPEAKERS from KeyBank:  
Don Kimble, Chief Financial Officer and Doug Schosser, Chief Accounting Officer)  
December 1

Topics: Banking Risks  
2008 Credit Crunch

Recommended Readings:
Deciphering the 2007-08 Liquidity and Credit Crunch (Brunnermeier), 2009 [CW]  
Confessions of a risk manager, Economist.com, 2008 [CW]  
Junk mortgages under the microscope, Fortune, 2007 [CW]

Class 13  Investment Banking  
December 3

Topics:  
Investment Banks and Securities Firms  
Securities Underwriting  
Bookbuilding  
Underpricing of IPOs

Recommended Readings:
S&C Ch. 4  
S&C (Alternative) Ch. 16  
Role of the Investment Bank (Connelly, Fox, and Klausner), UBS, 2005 [CW]  
Initial Public Offerings: Going by the Book (Benveniste and Wilhelm), Journal of Applied Corporate Finance, 1997 [CW]

Optional Readings:
Initial Public Offerings: Updated Statistics (Ritter), 2015 [CW]  
Secondary Market Stabilization of IPOs (Wilhelm), Journal of Applied Corporate Finance, 1999 [CW]  
Class 14  Case Discussion: Chase Manhattan Corporation

December 8

Topics:  Bank Mergers
         Value Creation in Corporate Restructurings

Required Reading:
HBS Case: Chase Manhattan Corporation: The Making of America’s Largest Bank [CP]

Note: Case write-up is due on 12/8 at 8:00am!

FINAL EXAM DATES:

Session 1 (LEC 4359): Tuesday Dec 15, 8:00am-9:45am

Session 2 (LEC 4360): Friday Dec 11, 8:00am-9:45am

Session 3 (LEC 4403): Monday Dec 14, 12:00pm-1:45pm

Final exam will be in our classroom!