

Structure and Outline of the Course

The syllabus embedded in the front page of the class Canvas website provides up-to-date details about readings, assignments, and due dates.

FNCE 232/732: International Banking

The Wharton School
University of Pennsylvania
Spring Semester 2021

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Office Hours

Wednesday: 4:00-5:00 pm EST & by appointment
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Overview

This course focuses on international financial institutions, especially the activities of global, systemically important banks. We will examine how current and historical events are reshaping the industry and highlight the basic analytics of managing a financial institution's exposures to liquidity, credit, market, operational and reputational risk. Most classes will begin with discussion of a current event related to course topics, usually based on news articles or a blog. I will post these brief articles along with some points to consider as you read the article in the [Announcements](#) section of Canvas at least 24 hours before the relevant class. Three team projects will be assigned to give you deeper exposure to analytic techniques related to the course. Throughout the semester, we will discuss public policy issues facing the international financial system. The objective of this course is to provide you with a broad overview of the forces shaping international banking and a framework for understanding continuing changes.

Innovations in the course this semester to enhance the online experience

I've made several changes to the course for this semester to try to compensate for the inherent disadvantages of conducting class online:

1. I have chosen to combine undergraduate and MBA sections because I realize that several of you will be participating in class from different time zones and so I wanted to give you as much flexibility as possible in scheduling a section. Please be assured that I will grade undergraduates and MBAs separately, as if they were in separate sections.
2. My teaching style relies heavily on creating a dialogue with students. To facilitate such interactions, keep your video feed on whenever possible and use the Raise Hand function to respond to questions and participate in class discussions. I welcome your questions and

comments. Indeed, your constructive classroom participation will help boost your grade if your final score is at a breakpoint in the distribution.

3. We have all become uncomfortably aware on the phenomenon of Zoom fatigue. For that reason, I will minimize extended lectures and attempt to vary the rhythm of activity in each class. I will experiment with the use of breakout rooms to give you an opportunity to get to know each other and encourage discussion.
4. As in past semesters, we will begin most classes with a discussion of some recent event related to what we are studying. I will distribute brief readings, usually taken from the Financial Times, Economist or Wall Street Journal along with questions to focus our discussion. I will aim to distribute this material at least 24 hours in advance.
5. I realize that participation in class discussions can be especially challenging under these circumstances and so I want to provide an additional way for you to demonstrate your active participation in class. Most days we will have a five-minute, automated quiz on Canvas in class, usually consisting of three straightforward multiple choice or True/False questions. In addition to providing you with an opportunity to demonstrate your participation in class, it will give me immediate feedback about whether I need to return to a topic because I have failed to make a point with sufficient clarity. Each quiz will be based on material presented in class that day and the questions will be quite straightforward. When I compute your final grade, I will discard your lowest four scores. The remaining scores will receive a weight of 15% in the determination of your aggregate final score.
6. In the past, the Student Lunch Program has provided me with the opportunity to meet participants informally, outside class. Not only do I enjoy getting to know you better, but it has proven to be an invaluable feedback mechanism for me as the course progresses. Of course, current circumstances rule out the lunch part of the experience, but I would like to create opportunities for us to meet informally in groups of 3-5 students. I will provide sign up lists for informal meetings at several different times over the semester so long as there is interest. It will, of course, be strictly optional.

Structure of the Canvas Website and Textbook

The home page of Canvas integrates the reading list, lecture notes and other class materials with direct links to the underlying files or material on the web. Some readings and assignments will undoubtedly change over the semester as events warrant. You can find this *provisional reading list* linked to the **Syllabus** heading on the Canvas front page, but please note that it will **not** be updated during the semester. You should regard the syllabus embedded in the home page as definitive regarding assignments, readings, and deadlines.

We will use excerpts from *Financial Institutions Management, A Risk Management Approach*, by Saunders, Cornett and Erhemjamts as a basic reference, largely for the last half of the course. McGraw-Hill has assembled this book specifically for our class to provide you with a much cheaper alternative to the full textbook. If you have had no prior experience with the financial services industry or if you plan to build your career in the sector, however, you may want to acquire the complete 10th edition of the text. The version designed for our course will be available at the bookstore in a book titled ***International Banking, FNCE-232/732*** (Text), ISBN #978-1307670653. Or, if you prefer the eBook version, you can purchase it at: www.mcgrawhillcreate.com/shop by

entering FNCE 232/732 or ISBN # 9781307670660 in the search box and following the directions to download.

Assignments

I have provided several problem sets to help you think more deeply about the course material and enable you to gauge your progress. These will **not** be graded and thus should not be turned in, but you will have access to the correct answers soon after you draft your answer. Since some of the questions are from earlier exams, you will find it rewarding to work through them carefully.

The three team projects will be graded. Please use Canvas to form teams **no larger than five** to work on these projects and also to submit projects. Both sections of this course will be assigned the same projects and so please feel free to form teams that include students enrolled in the other section if you like.

The first project will involve using accounting and market data to compare the performance of two internationally active banks. This project will also take you into some of the more subtle details of understanding annual reports. The second project will require you to compute value at risk (VaR) measures for a bank portfolio. The third project involves evaluating a bank's balance sheet and income statement under alternative stress scenarios, an approach that has become a fundamental technique of risk analysis and regulation.

International banking is an especially dynamic sector of the financial services industry and so I urge you to follow current developments in the *Financial Times*, *Wall Street Journal*, or *The New York Times*. In addition, you may find it helpful to browse through some of the many periodicals that focus on banking or international finance such as *The American Banker*, *The Economist*, *Euromoney*, *The Financial Regulator*, *Global Finance*, *The International Economy*, *The Institutional Investor* (International Edition), and *Risk*. And you will undoubtedly want to sample some of the ever-growing number of blogs, some of which are collected and linked on Canvas under the heading **Blogs and Glossary**. This list of these resources is a collaborative effort, so if you have found something useful that is not on the list (or a web link that is broken), please let me know and we will update the list.

To provide you with an incentive to follow current events, roughly every two weeks you will be asked to submit an article (or blog) you have read that relates to concepts we have discussed in class along with your critical evaluation of the implications of the article. Your choice may illustrate a concept we have discussed in class or it may raise questions about conclusions reached in class. In either case, you should **type two concise paragraphs** explaining the relationship between the article and the course material we are discussing currently or in the past and your evaluation of its implications. This exercise should be undertaken individually (not in teams) and must be turned in via Canvas on (or before) the date specified. Some of the most interesting articles will be posted in the Current Events folder on Canvas and discussed in class. Please note I have designed this exercise to sharpen your writing skills as well as to enhance your understanding of current developments. The folder linked to **Current Events Writing Assignment** near the top of the front page explains the rules you should follow to improve the clarity of your writing as well as a sample submission. These rules may seem to be an annoying constraint at first, but by the end

of the course, students generally feel that they have improved their ability to write concise, effective memos.

The two mid-term exams will be administered through Canvas. You will be given 2 hours over a designated 24-hour period to complete the exam. You may choose to take the exam at any time over that period, but once you start the exam you must complete it within the 2-hour limit. Unlike the quizzes which will be multiple choice and/or True/False, the exams will require brief answers and require critical thinking. The exams will be open book. You may consult your notes and readings, **but not other people**. The University Honor Code continues to apply.

The first mid-term examination will be available on **Wednesday, March 3 in a two-hour interval of your choice from 12:00 am to 11:59 pm EST**. The second mid-term exam **will not** be cumulative, and we will not have a final exam. The second mid-term will be available on **Wednesday, April 28 in a two-hour interval of your choice from 12:00 am to 11:59 pm EST**.

A Canvas folder contains mid-term exams (along with answers) for the past two years. I have posted them for two reasons: (1) These exams can help you judge quickly whether this course fits your needs and interests. If you find these concepts do not interest you, this course is not a good fit. (2) These exams also indicate the *kind* of questions I am likely to pose. Please be aware, however, that the course does change from year to year regarding concepts covered, the emphasis placed on particular topics and the current events covered and so the questions on the exam you take will be different. Resist the temptation to study for the exams by focusing mainly on the sample exams rather than reviewing what we do in class. Please note these exams emphasize *critical thinking*, not memorization or computation.

Your grade will depend on your final score weighted as follows:

27% for the combined three team projects

8% for your analyses of current events

25% for your grade on the first mid-term exam

25% for your grade on the second mid-term exam

15% for class participation based on your performance on the brief in-class quizzes

(I will drop the lowest four scores on your quizzes in computing your average.)

Topical Outline of the Course

I. An Overview of the Business of Banking

A. The Evolution of Banks and Financial Intermediation

B. How Banks Generate Profits (usually)

C. The Role of Capital in Banks

1. Conceptual Issues

2. Accounting and Regulatory Issues

II. Measuring and Managing Risk

A. Reputational Risk

B. VaR and the Revolution in Financial Risk Management

C. The Management of Credit Risk

- D. The Treasury Function: Managing Interest Rate Risk
- E. The Treasury Function: Managing Liquidity Risk

III. Financial Crises and Bank Regulation

- A. Real Estate Booms and Banking Busts
 - 1. Bank runs
 - 2. Price shocks and forced, rapid deleveraging
- B. The Safety Net for Financial Institutions
- C. Regulation of Bank Capital
 - 1. The Basel Accord
 - 2. Basel II and Basel III
- D. Regulation of Bank Liquidity
- E. Resolution Policy and the Single Point of Entry Paradigm

IV. Shadow Banking and Financial Innovation: Regulatory & Technological Arbitrage

- A. Securitization
- B. Collateral Intermediation
- C. FinTech
 - 1. Payments applications
 - 2. Lending applications

For the session by session class schedule, list of readings, and lecture notes, please see the Canvas website for FNCE 232/732.