VILLANOVA UNIVERSITY, School of Business, Dept. of Finance

Financial Markets, Institutions, & the Trading Environment — Dr. Michael Pagano, CFA

Fall 2008, Course: MSF 8610, Section: 001 — Office: Bartley 2041

E-mail: Michael.Pagano@villanova.edu — Phone: (610) 519-4389

Office Hours: Tuesdays and Thursdays 1:00 – 2:15 pm, or by appointment.

Course Materials: **(Required:)**

1. *Financial Institutions Management: A Risk Management Approach*, Anthony Saunders and Marcia Millon Cornett, McGraw-Hill/Irwin, 6th Edition, 2008.
2. *Citigroup Annual Report and Supplementary Hand-outs (to be downloaded at www.citi.com/citigroup/fin and distributed in class).*
3. *Journal Articles (see list presented below; should be obtained by the student independently)*

Optional Material:

1. *Equity Markets in Action: The Fundamentals of Market Structure & Trading*, Robert Schwartz and Reto Francioni, John Wiley & Sons, 2004.
2. *The New Market Wizards: Conversations with America's Top Traders*, Jack D. Schwager, HarperBusiness, 1992.
3. *Reminiscences of a Stock Operator*, Edwin Lefevre, John Wiley & Sons, 1994.

Course Objectives: This course will focus on Financial Institutions and how they measure and manage risk as well as increase profitability via several classic financial intermediation functions (with emphasis on financial markets and trading applications). In addition, the course will focus on the management of asset and liability structures of Financial Institutions (FIs) and analyze the impact of industry trends related to consolidation and regulation of FIs. The overall goal is to understand how FI's maximize shareholder value and affect a nation's macroeconomy given the various sources of risk they must manage.

Course Prerequisites: This course is open only to M.S. in Finance graduate students who have successfully completed MSF 8605 (Survey of Financial Theory) and MSF 8510 (Probability and Stochastic Processes) and the MSF Valuation course. It is the student's responsibility to be certain that the prerequisites have been successfully completed. If at any time during the semester it is determined that a student has not completed the prerequisites, the student can be administratively dropped from the course without credit or tuition refund.

Teaching Methodology: There will be an emphasis on adaptive problem-solving and critical thinking as an approach to covering the material. Students are expected to prepare assignments and read text chapters and relevant media (e.g., the *Wall Street Journal*) ***prior*** to the class meeting. The course will be taught via a combination of lectures and hands-on exercises in the Applied Finance Lab. Students are required to actively participate in the discussion and participate in the hands-on exercises using trading simulation software and real-time data services.

Course Grade and Requirements: The final grade will be based on two exams, a term project prepared by groups of 3-4 students (described below), and course participation. The *Midterm Exam, Final Exam*, and *Group Project* will each account for **25%** of your grade. The *Final Exam* will be cumulative. *Course Participation* accounts for the remainder of your grade, **25%**, and is broken down into two parts (*"Everyday"* participation of 10% and *"Financial Institution*

Analysis" verbal/written assignments worth 15%). The *"Financial Institution Analysis"* component is based on how well you can participate in the various tasks related to understanding and incorporating key concepts corresponding to the management of financial institutions (e.g., by using real-world financial statements, simulation software, and real-time / historical data services available in the Applied Finance Lab).

It is your responsibility to inquire about any assignments, readings, handouts, etc. if you miss class for any reason. Please be prepared for class by reading the assigned material *before* the day that the material is scheduled to be discussed. Also, it is recommended that you keep up with current business and financial events by reading publications such as *The Wall Street Journal*, *The Economist*, and *Barron's*. Please see rules for the exams below.

Computer Simulation:
Simulation software such as TraderEx will be used in the course for in-class demonstrations and homework assignments. You will see your results in real-time and analyze them after play. The simulations are designed to deepen your awareness of how financial institutions compete and sharpen your analytical skills. The simulations can also increase your understanding of how financial institutions use various financial techniques for managing risk and increasing profitability.

Exam Rules: 1. You can bring one card *or* one sheet of formulas no larger than 8 ½" x 11".
2. Except for a documented medical emergency, a missed exam will be graded as a zero (0 points). Students with documented medical emergencies will get a make-up exam that is different from the one given in class.
3. Academic dishonesty will not be tolerated.
4. These rules complement the normal rules of the College/University.

Academic Integrity Policy: The Code of Academic Integrity of Villanova University addresses cheating, fabrication of submitted work, plagiarism, handing in work completed for another course without the instructor's approval, and other forms of dishonesty, such as discussing the content of an exam with a student who has not taken that exam. For the first offense, a student who violates the Code will receive 0 points for the assignment. The violation will be reported by the instructor to the Dean's Office and recorded in the student's file. In addition, the student will be expected to complete an education program. For the second offense, the student will be dismissed from the University and the reason noted on the student's official transcript.

Students with Disabilities: It is the policy of Villanova to make reasonable academic accommodations for qualified individuals with disabilities. If you are a person with a disability please contact me after class or during office hours and make arrangements to register with the Learning Support Office by contacting 610-519-5636 or nancy.mott@villanova.edu as soon as possible. Registration is needed in order to receive accommodations.

Home Page: You can also see my web site for some useful information and updates: (www.homepage.villanova.edu/michael.pagano)

Course Outline:

	A. Introduction to the Fundamentals	

This section of the course is devoted to understanding the key attributes and functioning of four major types of financial markets related to equities, bonds, currencies, and commodities (and the lab resources available to monitor these markets). In addition, we will examine the pricing of credit and interest rate risks by financial institutions and the impact of these risks on the overall macroeconomy. The four main types of financial institutions will also be discussed.

Class/Date	Topic	Chapter
Aug 26, 28, Sep 2, 4	Introduction and Overview: Why are Financial Markets and Intermediaries Special?	1, G&T Hand-out
Sep 9, **11**	Financial Markets (Equities, Bonds, Currencies, Commodities)	Markets Hand-out, **Company Choices Due Sep 11**
Sep 16, 18, 23, 25	Financial Institutions (Banks, Securities Firms, Investment Companies, Insurers)	2-5
Sep 30, Oct 2, 7	Financial Risk Measurement & Management: Interest Rate Risk	7, 9
Oct 9	*No Class Scheduled – Independent study period*	
Oct 13–19	*Fall Break*	
Oct 21	**MIDTERM EXAM**	1-5, 7, 9, Hand-outs
Oct 23, **28**	Review of Mid-term and Financial Risks	**Journal Paper Choices Due Oct 28**