

Financial Institutions and Market

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Department: Department of Finance

Course Number:

Course Name: Financial Institution and market

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Course Description:

This course is an important fundamental course in business administration. It aims to answer the two major questions with regard to business administration:

1. What is an enterprise? What are the functions of enterprises? How do enterprises evolve and compete with each other in modern economic societies?
2. What is management? What are managers' tasks? What does it mean efficient and effective management?

Course Objective:

This course explores the two major questions above. To provide the basic and intermediate background regarding bank and FHC issues. Students are expected to learn knowledge on the two major subjects and make good preparation for the advanced courses. It is also important for students to understand that those objects are connected to each other in the real business world.

NOTE: because I am preparing a new teaching materials during the summer vacation, the course outline below will be changed slightly when class starts.

Week	Date	Topic	Reading	Note
1		<ul style="list-style-type: none">• Introduction to Balance sheet of Banking• Introduction to BS and IS in banking, Shen• Introduction to Equity and CAR, Shen• Introduction to Basel II, External and Internal Ratings, and Macroeconomics, Shen	Ch. 1	
2		<ul style="list-style-type: none">• The role of rating agency assessments in less developed countries: Impact of the proposed Basel guidelines. (<i>Giovanni Ferri, Li-Gang Liu, and Giovanni Majnoni</i>), JBF	Ch. 2	

		<ul style="list-style-type: none"> • Credit Risk and KMV. Shen • Shen 和林公韻 (2005) 違約機率預測與極端值—Robust Logistic Regression, 台灣財務金融季刊 (TSSCI), 13(3), 1-32 		
3		<ul style="list-style-type: none"> • Can Banks do business in different Nonfinancial industry? Taiwan Bank Law, No 74 • Do Regulations Affect Banking Performance? Government Governance May Matter, Shen and Yuen-Hsiang Chang (2006) Contemporary Economic Policy(SSCI), 24 (1), 92-105 	Ch. 3	Case 1
4		<ul style="list-style-type: none"> • Diversification in Banking: Is Noninterest Income the Answer? • How do banks make money? The fallacies of fee income, Robert De Young and Tara Rice, FED Chicago, 4Q/2004, Economic Perspectives 		
4		<ul style="list-style-type: none"> • Bank Loan Loss Provision: A reexamination of capital Management, earnings magenta and signal effects, Amhed, Takeda and Thoms, 1998 <p>Joint Tests of Signaling and Income Smoothing through Bank Loan Loss Provisions</p>		
5		<ul style="list-style-type: none"> • Basic concept of EM • Investor protection, prospect theory and earnings management, JBF, Shen and Chih, 2006 • An Empirical Comparison on Earnings Management between Banks and Non-Bank Firms around the World, Chih, Chi and Shen • Is the Effect of Earnings Management Neutral on the Bank Cost of Debt? —The Credit Rating Approach—, Shen and Huang 	Ch.5	Case 3
6		<ul style="list-style-type: none"> • Introduction to Taiwan Second Financial Reform • Competition, concentration and their relationship: an empirical analysis of the banking industry Jacob A. Bikker and Katharina Haaf, Journal of banking and finance (2002) 	Ch. 6	Case 4

		<ul style="list-style-type: none"> The profit Structure relationship in banking: tests of market power and efficient structure hypothesis, Berger, JMCB, 1995 404 		
7		<ul style="list-style-type: none"> Privatization, Competition, and Super competition in the Mexican Commercial Banking System 沈中華 and 呂美慧，本國銀行業逐年的競爭程度及其變化之分析證券市場發展季刊 (TSSCI)，第十八卷第三期 Loan Loss Provision 	Ch. 7	
8		-----midterm-----		
9		<ul style="list-style-type: none"> Investor Protection, Prospect Theory, Earnings management; Shen and Chih _____ and C. C. Lee (2006) Same Financial Development Yet Different Economic Growth — Why ? Journal of Money, Credit, and Banking (SSCI), 38, number 7, 1907-1944 Cash Flow Right VS Voting Rights, Pledged Ratio 更早期預警模型：台灣銀行道德指標的建立及影響 Journal of Management, 2004 The separation of ownership and control in East Asian corporations, JFE, 2000, 81-112; Claessens, Djankov and Lang 	Ch. 13	Case 10
10		<ul style="list-style-type: none"> The entry and the activity level of foreign banks in Italy: an analysis of the _____ determinants, Magri, Mori and Rossi, 2005, JBF Foreign affiliates of the world largest financial groups: locations and governance, Review in International Business and Finance, 2006, Outreville 購併分析.(Chung-Hua Shen, Handout) 購併定價實例—兆豐金控：交銀與中興票券購併分析. (Chung-Hua Shen, Handout) 	Ch. 14	Case 11
11		<ul style="list-style-type: none"> Cross-Border Bank Mergers: What Lures the Rare Animal? (Claudia M. Buch and Gayle L. DeLong) Do takeovers create value? A residual in come approach on UK data, Bild, Guest, Cosh and Runsten, 2002 Where do Bank Expand Abroad? An Empirical Analysis, Focarelli and Pozzolo, The Economics of bank Privatization, Megginson, 2005 	Ch. 17	Case 12

		<ul style="list-style-type: none"> Do Privatized Banks in middle- and low-income countries perform better than rival banks? An intra-industry analysis of bank privatization other Cross-Listing 		
12		<ul style="list-style-type: none"> The Geographic of Cross-Listing, why do companies list abroad? Pagano, Roell, Journal of Finance What makes stock exchanged succeed? Evidence from cross listing decisions Pagano, Randel, Rodell and Zechner; EER 		Case 13
13		<ul style="list-style-type: none"> Oversea Listing decision, new evidence of proximity preference, review of financial statistics, 2004, Sarkissian and Schill Bank-based and Market-based Financial Systems: Cross-Country Comparisons, Asli Demirguc-Kunt and Ross Levine 		
14		<ul style="list-style-type: none"> Students presentation 		
15		<ul style="list-style-type: none"> Students presentation 		
16		Students Presentation		

Grading

Our grade is simple: a midterm exam (45%), presentations (30%), pop quizzes (5~10%), and Participation (5~10%). For midterm exam, it is a closed-book exam. We will have a review session for the midterm exam to relieve your tension before it. Students usually find the review session is extremely helpful to prepare the exam. Next, presentation is tricky because it is a relative concept. Some presentations are extremely good and some are relatively weak. Even it is a group presentation, each member in the group needs to present around ten minutes. You get your personal score and group score. There is no chance for free riders. My experience is that students typically underestimate its importance and overestimate the score they will get. Third, pop quiz is very easy. In the class, I will ask you a very short question which is just discussed. It is an open-book test and is designed to help you to grasp the materials immediately. You should get full score of it. Finally, we can never downgrade the class participation. It will account for 5~10% of your grade. Most of the time,

everyone has at least 85% of it. However, if you constantly discuss with me in the class, you will get 99% of it. While we all know that it is subjective, it happens in daily life. Thus, we do not pretend that it does not exist.

Method of Assessment

Team Project: Google Online Marketing Challenge
(<http://www.google.com/onlinechallenge/index.html>)

Discussion questions

- * Which kind of business is best suitable for keyword advertising?
- * Which keywords are most relevant to the business of your team's selection?
- * How to evaluate the performance of a keyword advertising campaign?
- * How to control keyword advertising spending given the limited budget?

Relevant Textbook

1. 中文 references: Financial Market (沈中華, HsinRu): Ch 12 ~ Ch 15
2. research articles
3. 中文 First Class before Financial Market (沈中華, Common wealth publisher)
4. 中文 Forty minutes to forecast foreign exchange rate (沈中華, HsinRu publisher)

Topics

1. Basic Financial Ratios

- Introduction to BS and IS in banking, Shen

2. Capital Adequacy Ratio

- Introduction to Equity and CAR, Shen
- Introduction to Basel II, External and Internal Ratings, and Macroeconomics, Shen

3. Rating Criteria and Basel II

- Basic Concept, Shen

- The role of rating agency assessments in less developed countries: Impact of the proposed Basel guidelines. (*Giovanni Ferri, Li-Gang Liu, and Giovanni Majnoni*), JBF

4. Credit Risk

- Credit Risk and KMV. *Shen*
- Shen 和林公韻 (2005) 違約機率預測與極端值—Robust Logistic Regression, 台灣財務金融季刊 (TSSCI), 13(3), 1-32

5. Can Banks do business in different Nonfinancial industry? Taiwan Bank Law, No 74

Do Regulations Affect Banking Performance? Government Governance May Matter, Shen and Yuen-Hsiang Chang (2006)

Contemporary Economic Policy(SSCI), 24 (1), 92-105

6. Noninterest Income and diversification: is it the solution for bank?

- Diversification in Banking: Is Noninterest Income the Answer?
- How do banks make money? The fallacies of fee income, Robert De Young and Tara Rice, FED Chicago, 4Q/2004, Economic Perspectives

7. Earnings Management

- Basic concept of EM
- Investor protection, prospect theory and earnings management, JBF, Shen and Chih, 2006
- An Empirical Comparison on Earnings Management between Banks and Non-Bank Firms around the World, Chih, Chi and Shen
- Is the Effect of Earnings Management Neutral on the Bank Cost of Debt? —The Credit Rating Approach—, Shen and Huang

8. Competition and Concentration in Banking industry : Big Bank is Better or not? What is the purpose of Second financial reform?

- Introduction to Taiwan Second Financial Reform
- Competition, concentration and their relationship: an empirical analysis of the banking industry Jacob A. Bikker and Katharina Haaf, Journal of

banking and finance (2002)

- The profit Structure relationship in banking: tests of market power and efficient structure hypothesis, Berger, JMCB, 1995 404
- Privatization, Competition, and Super competition in the Mexican Commercial Banking System
- 沈中華 and 呂美慧，本國銀行業逐年的競爭程度及其變化之分析證券市場發展季刊 (TSSCI)，第十八卷第三期 **Loan Loss Provision**
- Bank Loan Loss Provision: A reexamination of capital Management, earnings magenta and signal effects, Amhed, Takeda and Thoms, 1998
- Joint Tests of Signaling and Income Smoothing through Bank Loan Loss Provisions

9. Earning Managements in Banking

- Investor Protection, Prospect Theory, Earnings management; Shen and Chih

10. Financial System: Bank Based or Market Based

11. Financial System and Economic Growth

- ____ and C. C. Lee (2006) Same Financial Development Yet Different Economic Growth – Why ? **Journal of Money, Credit, and Banking (SSCI)**, 38, number 7, 1907-1944

12. Bank Governance

- Cash Flow Right VS Voting Rights, Pledged Ratio
- 更早期預警模型：台灣銀行道德指標的建立及影響 *Journal of Management*, 2004
- The separation of ownership and control in East Asian corporations, JFE, 2000, 81-112; Claessens, Djankov and Lang

13. Foreign Bank Penetration

- The entry and the activity level of foreign banks in Italy: an analysis of the determinants, Magri, Mori and Rossi, 2005, JBF
- Foreign affiliates of the world largest financial groups: locations and governance, *Review in International Business and Finance*, 2006, Outreville

14. Merger and Acquisition

- 購併分析.(*Chung-Hua Shen*, Handout)
- 購併定價實例—兆豐金控：交銀與中興票券購併分析. (*Chung-Hua Shen*, Handout)
- Cross-Border Bank Mergers: What Lures the Rare Animal? (*Claudia M. Buch and Gayle L. Delong*)

Do takeovers create value? A residual income approach on UK data, Bild, Guest, Cosh and Runsten, 2002

Where do Bank Expand Abroad? An Empirical Analysis, Focarelli and Pozzolo,

15. Bank Privatization

- The Economics of bank Privatization, Megginson, 2005
- Do Privatized Banks in middle- and low-income countries perform better than rival banks? An intra-industry analysis of bank privatization other Cross-Listing

16. Cross Listing

- The Geographic of Cross-Listing, why do companies list abroad? Pagano, Roell, Journal of Finance
- What makes stock exchanged succeed? Evidence from cross listing decisions Pagano, Randel, Rodell and Zechner; EER
- Oversea Listing decision, new evidence of proximity preference, review of financial statistics, 2004, Sarkissian and Schill

17. Bank Based and Market Based System

- Bank-based and Market-based Financial Systems: Cross-Country Comparisons, Asli Demirguc-Kunt and Ross Levine