

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 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.

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)

Grading

Our grade is simple: a midterm exam (45%), presentations (30%), pop quiz (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 takes place. Students usually find the review session is extremely helpful for them to prepare the exam.

Next, grading presentation is not easy and even 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 his work 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. Thus, I stress that it is a relative concept. Even though you think your presentation is extremely good, you may still not get A+++ because theirs is even better.

Third, pop quiz is very easy. In the class, I will ask you a very short question which is just discussed during my lecture. It is an open-book test and is designed to help you to grasp the materials immediately. In fact, it is the bonus of attending the class. You should get full score of it.

Finally, we can never downgrade the importance of the class participation. It will account for 5~10% of your grade. Most of the time, everyone obtain 85% of it because I cannot tell your participation. However, if you constantly discuss with me in the class (with smiling face), your score will immediately rise up to 99%. While we all know that it is subjective, the subjective evaluation happens in our daily life. Thus, let us not pretend that it does not exist. Also, let us practice it before we go to the real world.

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 • 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 	Ch. 2	
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 Joint Tests of Signaling and Income Smoothing through Bank Loan Loss Provisions		
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 <p>Is the Effect of Earnings Management Neutral on the Bank Cost of Debt? —The Credit Rating Approach—, Shen and Huang</p>	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) • The profit Structure relationship in banking: tests of market power and efficient structure hypothesis, Berger, JMCB, 1995 404 	Ch. 6	Case 4
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 <p>Loan Loss Provision</p>	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: 	Ch. 14	Case 11

		<p>locations and governance, Review in International Business and Finance, 2006, Outreville</p> <ul style="list-style-type: none"> • 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) 		
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 income 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 • Do Privatized Banks in middle- and low-income countries perform better than rival banks? An intra-industry analysis of bank privatization other Cross-Listing 	Ch. 17	Case 12
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 <p>Bank-based and Market-based Financial Systems: Cross-Country Comparisons, Asli Demirguc-Kunt and Ross Levine</p>		
14		<ul style="list-style-type: none"> • Students presentation 		
15		<ul style="list-style-type: none"> • Students presentation 		
16		Students Presentation		