

Banking and Capital Markets  
Prof. Fernando B. Sotelino  
SCU Summer 2007

Course description:

This course provides a thorough examination of the workings of the financial services industry and of the importance of a well functioning financial system for sustained economic development and growth. It is intended for both, banking industry professionals and executives in non-financial firms interested in gaining a good understanding of the industry. After reviewing the fundamental concepts in banking, we will investigate how consumption and investment are financed by banks and/or the capital markets (fixed income and equities) in both, developed and selected emerging market economies. We will proceed to study the nature and the dynamics of international capital flows and examine how political forces and regulation affect the behavior of financial institutions and the shape of the banking industry. We will then analyze and discuss recent (post-1995) consolidation trends in banking in the U.S., Western Europe and selected emerging market economies and conclude with a prospective view on the organization of the financial services industry globally.

Course requirements and grading:

Individual sessions are structured to combine lecture and discussion time. Students are expected to complete the reading assignment before each class.

Grades will be based on class preparation and participation (15%), a mid-term exam (35%), and the final exam (50%)..

Schedule and Readings:

Session 1: Early History of Money and Banking

- A History of Banking in the United States, John Jay Knox (1903), reprints of Economic Classics, A.M.Kelley Publishers, New York, 1969: part I, Banks and Bankers under Federal Laws, section I, Origin and Development of Banking (pp.1-14);
- Organized Banking, Eugene Agger, Henry Holt and Company, New York, 1918: Introduction (pp.3-17) and ch. XIII.The Principles of the Federal Reserve System (pp.241-264).

Session 2: Fundamental Concepts in Banking.

Readings:

Money, The Financial System, and the Economy, R. Glenn Hubbard, AddisonWesley 2000 - chapters 2. Money and the Payments System (pp.14-28), 3.Overview of the Financial System (pp.35-55), and 13. The Business of Banking (pp.316-336).

### Session 3: Consumer Lending: Instruments and Market Participants.

#### Readings:

- Consumer Lending, chapter 11, pp.457-478, in Commercial Bank Financial Management, Joseph E. Sinkley Jr., Prentice Hall, 1998;
- The Credit Card Industry - A History, Lewis Mandell, Twayne Publishers, 1990, chapters 1 to 4 (pp. 1-51), and Conclusion (pp.153-161);
- Retail Banking market information (tbd).

### Session 4: Corporate Lending and the Financing of Capital Investment.

#### Readings:

- Term Lending to Businesses, Neil H. Jacoby and Raymond J. Saulnier, National Bureau of Research, New York, NY, 1942, chapters 1, 2 and 5 (pp. 9-28, and 73-101);
- Project Financing, John D. Finnerty, John Wiley and Sons, 1996, chapters 1.Introduction and 2.The Rationale for Project Financing (pp.1-33);
- Wholesale Banking market information (tbd).

### Session 5: Debt Capital Markets - Instruments, Participants and Market Depth.

#### Readings:

- Investments, William. F. Sharpe, Prentice Hall, 1978, chapter 9.Investments (pp.206-211);
- Investment Banking and Brokerage, John F. Marshall and M.E.Ellis, Probus Publishers, 1994, ch.1.Overview (pp.3-22);
- BIS/ECB Seminar, Kunming, China, Nov.2005: Developing Corporate Bond Markets in Asia, J.Gyntelberg, G.Ma and E.Remolona and The Corporate Debt Market in India, V.K.Sharma and Chandan Sinha.;
- Fixed Income markets information (tbd).

### Session 6: Equity Capital Markets - Instruments, Participants, and Market Depth.

#### Readings:

- The Equity Culture, B. Mark Smith, Farrar, Strauss and Giroux, New York, 2003, chapters 1.A Financial Revolution (pp. 9-23);
- Investment Banking and Brokerage, John F. Marshall and M.E.Ellis, Probus Publishers,1994, ch.3.Underwriting and Syndication (pp.57-76);
- Capital Market Development and Nurturing, R.Aggarwal, in The Future of Domestic Capital Markets in Developing Countries, Robert Litan, Michael Pomerleano, V. Sundararajan Editors, Brookings, 2003;
- Equities markets information (tbd).

### Session 7: Bank Regulation

- Money, the Financial System, and the Economy, R. Glenn Hubbard, Addison Wesley, 2000, ch.14.The Banking Industry (pp.351-381);
- BIS papers: International Convergence of Capital Measurement and Capital Standards, BIS, Basel, June 2004.

#### Session 8: International Capital Flows

##### Readings:

- The Influence of Ratings on International Capital Markets, Julia von Maltzan Pacheco, Gabler Edition Wissenschaft, 2000, chapter 3. Sovereign Risks: Who Rates Whom and How (pp.43-66);
- The Role and Function of Rating Agencies, T.Keller, BIS/ECB Seminar, Kunming, China, Nov.2005.

#### Session 9: Measuring Bank Performance

##### Readings:

- RAROC at Bank of America: From Theory to Practice, Zaik, Walter, Kelling and James, Journal of Applied Corporate Finance, vol.9, no.2, summer 1996 (pp.1-11);
- Selected research reports on overall industry and individual banks.

#### Session 10: Bank Mergers, Theory and Practice

- Bank Mergers - Lessons for the Future, Steven I. Davis, MacMillan Press, London, 2000, chapters 2.Strategic Positioning (pp.10-19), 3.Cost and Revenue Synergies (pp.20-35), and 8.Cultural Conflict - The Battle of Hearts and Minds (pp73-81);
- The World Has Changed, and the Banks?, Fernando B. Sotelino, Gazeta Mercantil, Sao Paulo, Sep.1997.

#### Session 11: Banking in Emerging Economies, The Cases of Brazil and Mexico

- Privatization and Restructuring of Banks in Brazil, Baer and Nazmi, The Quarterly Review of Economics and Finance, vol.40, issue 1, Spring 2000;
- Competition and Consolidation in the Mexican Banking Industry after the 1995 Crisis, J.M.Yacamán, BIS Papers no.4, Aug. 2001.

#### Session 12: Banking in Europe

- Banking in Europe, Past Present and Future, Jean Dermine in The Transformation of the European Financial System, Gaspar,Hartmann,Slijpen editors, European Central Bank, Oct.2002:
- Banks and Markets: The Changing Character of European Finance, R.Rajan and L.Zingales in The Transformation of the European Financial System, ECB, Oct.2002.

#### Session 13: Global Banking, A Prospective View

- The Banker, July 2005: Consolidation Strengthens the Market, Stephen Tiwewell, reearch by T.Baker-Self, B.Ghavini and M.Dickie (pp.209-215, 227).