

FIN 40320: Management of Financial Institutions Spring Semester

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Course description: This course examines the theory and practice of financial firms and the markets in which they operate. It analyzes the role of various financial intermediaries in the transfer of funds between economic units. Management issues and problem-solving techniques are emphasized. The course also offers an introduction to data analysis with Excel.

Learning objectives:

1. Evaluate the role of financial institutions in the economy
2. Assess the performance of financial institutions
3. Statistically analyze data using Excel
4. Understand and resolve incentive problems in financial institutions

Prerequisites: Some familiarity with basic statistics is useful, but not necessary.

Readings and textbook: You are encouraged to attend all the lectures. Readings are indicated for the topics covered in the class.

Grading: There will be one midterm, one final, and student presentations. The final grade will be calculated as follows:

Midterm

Final

Presentation

Participation

Problem sets: There will be regular problem sets, which will not be graded. You are encouraged to work on them according to the recommended timeline. You are also encouraged to work in small groups.

Presentations: Working in small groups, you will prepare a short presentation on one of three topics. Topics change every year.

Key dates: Important dates for this course are announced every year for:

Midterm

Presentation check-in
Presentations (3 days)
Final

On these days, absence must be excused by the University.

Your responsibilities: Read assigned cases and readings before coming to class and be prepared to discuss them. Attend and actively participate in all student presentations. Bring a table tent card with your name on it.

Honor code: You are expected to strictly abide to the University of Notre Dame Academic Code of Honor. Academic dishonesty will be pursued and punished to the fullest extent.

Major topics: Possibly with some minor changes, the course will cover the following topics:

1. Financial institutions
 - (a) What's so special about them?
2. Risk and returns
 - (a) Key concepts and trade-offs
 - (b) The CAPM
 - (c) Performance evaluation
 - (d) Multifactor models

Required reading: Perold (2004)

3. Delegated investment management
 - (a) Mutual funds
 - (b) Exchange traded funds
 - (c) Hedge funds
 - (d) Creation and redemption
 - (e) Fees

Suggested reading: Lettau and Madhavan (2018)
4. Active fund management
 - (a) Strategies
 - (b) Performance
 - (c) Incentive problems in financial institutions
 - (d) Transparency and contracts

Required reading: Berk (2005)

Suggested reading: Ang (2014) Ch. 1, 15, 16, 17; Fung and Hsieh (1999), Getmansky et al. (2015)

Case: Feehan investment management: Hedge fund or mutual fund?

5. Insurance companies

- (a) Types of insurance
- (b) Life insurance, annuities, and pensions
- (c) Moral hazard and adverse selection

Suggested reading: Geruso and Layton (2017)

6. Banks

- (a) Money creation
- (b) Deposit insurance and moral hazard
- (c) Investment banks

Required reading: Mehran and Mollineaux (2012)

7. Securitization

- (a) Securitization process
- (b) Pass-through securities
- (c) CMOs and covered bonds
- (d) Government sponsorship
- (e) The 2007-2008 crisis

Required reading: Coval et al. (2009)

8. Central banks and monetary policy (if time permits)

- (a) Role of the central bank
- (b) How does the central bank set interest rates?
- (c) Conventional monetary policy
- (d) Unconventional monetary policy

Suggested readings: Federal Reserve Board (2016) Ch. 3, 4, 6; Meulendyke (1989) Ch. 6, 7

References

- Ang, A. (2014). *Asset Management*. Oxford University Press.
- Berk, J. B. (2005). Five myths of active portfolio management. *Journal of Portfolio Management*, 31(3):27–31.
- Coval, J., Jurek, J., and Stafford, E. (2009). The economics of structured finance. Technical report.
- Federal Reserve Board (2016). *The Federal Reserve System: Purposes and Functions*. Federal Reserve Board.
- Fung, W. and Hsieh, D. A. (1999). A primer on hedge funds. *Journal of Empirical Finance*, 6(3):309–331.
- Geruso, M. and Layton, T. J. (2017). Selection in health insurance markets and its policy remedies. *Journal of Economic Perspectives*, 31(4):23–50.
- Getmansky, M., Lee, P. A., and Lo, A. W. (2015). Hedge funds: A dynamic industry in transition. *Annual Review of Financial Economics*, 7(1):483–577.
- Lettau, M. and Madhavan, A. (2018). Exchange-traded funds 101 for economists.
- Mehran, H. and Mollineaux, L. (2012). Corporate governance of financial institutions. *Annual Review of Financial Economics*, 4:215–232.
- Meulendyke, A.-M. (1989). *US Monetary Policy and Financial Markets*. Federal Reserve Bank of New York.
- Perold, A. F. (2004). The Capital Asset Pricing Model. In *Journal of Economic Perspectives*, volume 18, pages 3–24.