Overview
It would be an understatement to say that a professor who specializes in debt markets and banking has found the previous six years to be exciting. The upheaval in the US financial markets over these years has included:

- Bursting of the housing bubble, the subprime meltdown and failure of mortgage brokers, mortgage bankers and monoline insurance companies
- Placing government sponsored entities (GSEs) under direct Treasury control
- Failure of two major broker/dealers followed by the conversion of others into a bank holding company structure
- Collapse of the CDO and ABCP markets
- Sharp deterioration in credit quality, frozen credit markets and a severe recession
- Explosive growth of central bank assets due to quantitative easing (Fed, BoE, BoJ)
- Passage of the Dodd-Frank Act which is the most extensive financial regulation since the 1933 Glass-Steagall Act

Meanwhile, within the European markets:
- New regulatory agencies and legislation have been created or are pending
- The feasibility of having a unified central bank and single currency while maintaining independent fiscal policies is questioned
- The long-term viability of some major banking institutions is still in doubt

Although most banks have survived, they now face a more stringent regulatory environment. This course offers a comprehensive insight into the evolving banking industry and credit market instruments, examining functions, origins, current status and likely future structure.

Course content should benefit students with the following career goals whether within or outside the US: Consulting, Financial Analysis, Sales and Trading, Commercial and Investment Banking, Regulatory Agencies, Hedge Funds and Private Equity.
**Topical Areas:** This course will cover the following major areas

1. Universal global principles of the structure and operation of commercial banking
2. Risk areas in banking - definition, analysis and control
3. Bank capital and global capital regulation via Basel I, II, II.5 and III
4. Fixed income concepts
5. The banking corporation – scope of functional areas and regulation
6. Shadow banking – activities, risk and regulation
7. Central banking - reactions to financial crises and quantitative easing
8. Fixed income derivatives including futures and interest rate swaps
9. Securitization and structured finance
10. US and European regulatory developments – stress testing, SIFIs, TBTF, OTC derivatives and relevant provisions of Dodd-Frank

**Required Reading:** Required reading materials will consist of selected chapters from the following textbooks as well as journal articles that will be available for download from Canvas. The two textbooks are


**Homework:** Qualitative and quantitative homework problems will be assigned on a weekly basis. These problems are intended to illustrate the global consistency of banking and credit market concepts and structure.

**Classroom Participation:** Students will be expected to be aware of current financial and economic developments and contribute to class discussions. Note that classroom participation forms part of the final grade and students should be prepared to be called upon in class for a brief synopsis.

**Midterm Examination:** An in-class midterm examination will be given during the first half of the 6th class session. Exam questions will be drawn from homework problems and reading assignments.

**Final Examination:** The final exam will be given during the regularly-scheduled time slot. Questions will include topics covered in the second half of the class as well as an overview of the contemporary financial system.

**Prerequisites (or corequisites):** Capital Markets and Investments.
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Class 1
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   - Mishkin, Chapter 10, Banking and the Management of Financial Institutions
   - Mishkin, Chapter 12, Banking Industry: Structure and Competition
2. The Bank's Income Statement and Performance Analysis

Class 2
1. Off-Balance Sheet Activities; Preliminary Capital Concepts
   - Estrella, Arturo, “Regulatory Capital and the Supervision of Financial Institutions: Some Basic Distinctions and Policy Choices,
2. Bond Yields, Bond Pricing, Duration and Convexity
   - Fabozzi, Chapter 4, Bond Price Volatility

Class 3
1. Liquidity Risk: Analysis and Control
2. Interest Rate Risk: Analysis and Control

Class 4
1. The Bank Holding Company: Evolution, Structure and Regulation
2. Shadow Banking – Institutions and Activities
Class 5
1. Solvency, Capital Structure and Basel Capital Regulations
2. Basel II.5, Basel III and the Revised International Capital Standards

Class 6
1. In-Class Midterm
2. Central Banking and Crisis Management
   • Mishkin, Chapter 16, Central Banks and the Federal Reserve System

Class 7
1. Quantitative Easing Outlook, Forward Guidance and Interest Rate Outlook
   • “The Federal Reserve’s Exit Strategy,” Barclays, January 2014
2. Short-Term Interest Rate Futures
   • Fabozzi, Chapter 26, pp. 580-586

Class 8
1. Interest Rate Swaps
   • Fabozzi, Chapter 28.
   • Brown, Keith and Donald J. Smith, Interest Rate and Currency Swaps: A Tutorial, Chapter 4, “Pricing Interest Rate and Currency Swaps”
2. Bond and Note Futures – Concepts

Class 9
1. Bond and Note Futures – Applications
   • Fabozzi, Chapter 26, pp. 586-614.
2. Residential Mortgages, Pools and Pass-Throughs
   • Fabozzi, Chapters 10 and 11.

Class 10
1. Structured Finance and Collateralized Mortgage Obligations
   • Fabozzi, Chapter 12.
2. Dodd-Frank Part I: FSOC, SIFIs and TBTF

Class 11
1. Dodd-Frank Part II: The Volcker Rule, OTC Derivatives and the CFPB
2. The Subprime Mortgage Market

Class 12
1. Developing Issues in Banking and the Credit Markets
2. Course Review and Wrap-up