FIN 440: Financial Institutions.

A. <u>Learning Goals (Objectives)—Student Will:</u>
1. Understand the operations of financial markets and financial institutions highlighting current issues and regulatory aspects.
2. The role of Federal Reserve System (FRS) in conducting the monetary policy, the tools employed by the Fed to achieve its goals.
3. Know the different financial instruments that are traded in the financial markets and how to determine the rates of return and the prices of these instruments. Know the factors that affect interest rates.

B. <u>Assessment Method for Learning Goals(Objectives):</u>
1. Students' knowledge will be assessed based on three (3) examinations given during the semester.
2. Students will be assessed using class group project titled "Analyzing the Performance of a Financial Intermediary". The objective of this project is to familiarize students with the financial statements of financial intermediary (FI) and the financial ratios are used to analyze their performance. Students are asked to obtain from the recent annual reports for a number of financial institutions and perform analysis either as time series or as cross section basis. From the collected financial statements (B/S and I/S). Students identify data, which are then used to compute a number of important financial ratios used and analyze the financial performance of the institutions. Students present the important findings as group during the last week of the semester and submit a detailed group report.

C. <u>Mapping Learning Goals (Objectives) into Course Requirements:</u>
   As outlined in Section B.

Q.If a foreign currency appreciates that country's goods and services become relatively more expensive for U.S. buyers. (LO3)

Q. An investor starts with $1 million and converts them to 0.75 million pounds which are then invested for one year. In a year the investor has 0.7795 million pounds which she then converts to dollars at an exchange rate of 0.72 pounds per dollar. The U.S. dollar annual rate of return earned was _____. (LO2)
A) 4.97%
B) 5.27%
C) 6.45%
D) 7.69%
E) 8.26%

Q. If interest rate parity holds and the annual German nominal interest rate is 3% and the U.S. annual nominal rate is 5% and real interest rates are 2% in both countries, then inflation in Germany is about _____ than in the U.S. (LO2)
A) 1% higher
B) 2% higher
C) 1% lowers
D) 4% lower
E) 2% lower

Q. A U.S. bank has £120 million in loans to corporate customers and has £70 million in deposits it owes to customers with the same maturity. The bank has also sold £20 million pounds forward. The bank's net exposure is (LO2)
A) £210 million
B) £30 million
C) £70 million
D) £170 million
E) £190 million

Q. In comparison to small banks, larger banks typically have (LO2)
A) More equity capital
B) More core deposits
C) More off balance sheet activities
D) Larger net interest margins
E) All of the above

Q. Commercial banks are the _____ financial intermediary in the United States as measured by asset size. (LO2)
A) Largest
B) second largest
C) third largest
D) fourth largest
E) fifth largest

Q. A bank is earning 6% on its $150 million in earning assets and is paying 4.75% on its liabilities. The bank's NIM is _____. (LO3)
A) 6.00%
B) 4.75%
C) 1.25%
D) 10.75%
E) 1.26%

Q. The Glass-Steagall Act came about due to concerns about excessive risk taking at banks and conflicts of interest between commercial and investment banking activities. (LO1)

Q. FDIC deposit insurance is generally limited to _____ per depositor per bank. (LO2)
A) $50,000
B) $100,000
C) $150,000
D) $200,000
E) $250,000

Q. Which act led to interstate banking in the U.S.? (LO1)
A) Glass-Steagall Act
B) DIDMCA
C) McFadden Act
D) Riegle-Neal Act
E) Financial Services Modernization Act

Q. A finance company that makes loans to high risk customers is called a (LO3)
A) Subprime lender
B) Commercial bank
C) Factor
D) Warehouse lender
E) Supraprime lender

Q. Which one of the following institutions is the least regulated? (LO1)
A) Banks
B) Credit unions
C) Finance companies
D) Savings associations
E) Savings banks

Q. The most important federal legislation affecting regulation of life insurance companies prior to 1999 was the (LO1)
A) McCarran-Ferguson Act
B) McFadden Act
C) Investment Company Act
D) SEC Act
E) Insurance Freedom Act

Q. Insurance companies, commercial banks and investment banks may now affiliate with each other and engage in similar lines of business. These powers were granted by the (LO1)
A) Glass-Steagall Act
B) Depository Deregulation Act
C) Garn-St Germain Act
D) Riegle-Neal Act
E) Financial Services Modernization Act

Q. An example of a pure arbitrage strategy is to simultaneously buy and sell the same security in two different markets at different prices. (LO3)

Q. An investment banker agrees to a firm commitment offering of 2 million shares of Ace stock. The offer price is set at $55 and the spread is 50 cents per share. If the stock is actually sold to the public at $53.80 however, what is the investment banker's gain or loss? (LO3)
A) $1,400,000 gain
B) $1,400,000 loss
C) $500,000 gain
D) $500,000 loss
E) None of the above

Q. An open end mutual fund owns 1500 share of Krispy Kreme priced at $12. The fund also owns 1000 shares of Ben & Jerry has priced at $43, and 2000 shares of Pepsi priced at $50. The fund itself has 3500 of its own shares outstanding. What is the NAV of a fund's share? (LO3)
A) $66
B) $56
C) $46
D) $36
E) $26

Q. The primary regulator of mutual funds is the (LO1)
A) NASD
B) CFTC
C) NYSE
D) SEC
E) NSMIA

Q. The subprime crisis is a good example of the credit risk faced by financial institutions. (LO3)

Q. The risk that an unanticipated increase in liability withdrawals may cause an FI to have to sell assets at fire sale prices is an example of (LO3)
A) Credit risk
B) Liquidity risk
C) Interest rate risk
D) Sovereign risk
E) Technology risk

Overall Results**. Spring 2009

	% SU	%SA	%DEV	%DEF	Total
LO's 1, 2 & 3 (20)	80	20	0	0	100%
Project	60	40	0	0	100%
Weighted Avg	75	25	0	0	100%

75% LO's and 25% Project

Breakdown of the Overall Results.
Correct Response

LO1(6)		%
5+	SU	100
4	SA	0
3	DEV	0
<3	DEF	0

Correct Response

LO2 (6)		%
5+	SU	90
4	SA	0
3	DEV	10
<3	DEF	0

Correct Response

LO2 (6)		%
5+	SU	90
4	SA	0
3	DEV	10
<3	DEF	0

** Overall Result

Overall (LO1,2 &3)
Correct Response

LO's(20)		%
17+	SU	80
16	SA	20
15	DEV	0
<15	DEF	0

Project		
92+	SU	60
90~91	SA	40
86~89	DEV	0
<85	DEF	0

PROJECT

A.Superior (SU):
The student/s report demonstrate a clear understanding of the Financial Statements (B/S and I/S) of the Financial Institutions ((FI's), identifies the data they use to compute a number of important financial ratios. Student/s presents the important findings analyzing their performance, provide graphs to illustrate comparisons/changes. Also details strategic plan, geographic diversification in terms of exposure to regional economic problems and stock performance of their FI's.

B.Satisfactory (SA):
The student/s report demonstrate understanding of the Financial Statements (B/S and I/S) of the Financial Institutions ((FI's), identifies the data to compute a number of important financial ratios to analyze their performance. Student/s presents the findings, but did not give clear explanation what information the computed ratios convey, provide graphs to illustrate comparisons/ changes. Also presents the strategic plan, geographic diversification, and stock performance of their FI's.

C.Developing (DEV):
The student/s report indicates some but not sufficient understanding on the annalysis of FI's performance.

D.Deficient (DEF):
The student/s report clearly demonstrates lack of understanding on the annalysis of FI's performance.