Finance 461  
Financial Intermediation  
Spring 2010

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Office Hours: T 2:00 – 3:30, W 11:30 – 1:30

Required Materials

Irwin, 5\textsuperscript{th} or 6\textsuperscript{th} edition

Suggested Activities

Read *The Wall Street Journal, Business Week, Forbes, The Economist, etc.* Student subscription rates are available for many periodicals. Watch *CNN, CNBC, C-Span, etc.* These activities are practically free.

Prerequisites

Fin 300.

Objective of the Course

The objective of this course is to introduce students to the special nature of financial intermediaries. We will take a close look at the unique roles that they play in financial markets. In particular, we will study the informational problems that arise in the process of transferring capital from suppliers to demanders and the ways in which financial intermediaries resolve these problems. In addition, the ways in which intermediaries manage capital adequacy, credit risk, liquidity risk, and interest rate risk will be examined.
Format

A traditional “lecture” format will be used in the course. This works best when the lecture turns into a discussion, which requires significant input from students. Participation is expected and will be rewarded. We will examine a host of financial and non-financial problems, and spend a good deal of time discussing the recent financial crisis. Practice problems will be provided prior to each exam and questions from the book may also be assigned. Outlines of the lecture notes will also be provided.

Requirements

Students will be evaluated on nine assignments and three exams; assignments will be a mixture of quizzes and homeworks. Whether the assignment is a quiz or a homework, make-ups are given only if arrangements are made prior to missing the assignment. Some of the quizzes may be unannounced, in which case no make-ups are allowed. No make-up exams will be given. A score of zero is assigned for a missed exam. An excused absence from an exam – which must be determined prior to the exam – will allow the student to place the weight from the missed exam on the other two exams. Make-ups and excused absences are entirely discretionary. A student cannot miss the final exam and pass the course.

The assignments and exams will contain a variety of problem types.

Grading

Assignments are worth 25 points each. Each exam is worth 100 points. Plus/minus grading will be used for course grades.

To arrive at a student's course grade each exam score will be divided by five. Only a student's top eight assignment grades will be counted. A student's total assignment points will also be divided by five. These four adjusted grades - three exam grades and the assignment grade - are then added together to obtain a student's score out of 100. Note that this formula implies that the assignments make up 40% of a student's grade and each exam accounts for 20% of a student's grade. In addition, students may earn up to fifteen additional points (3%) through participation - one may view these as "bonus" points. Final course grades will be assessed on a curve; following each midterm an updated and approximate curve will be reported.

Any questions that a student has on grading will be cheerfully addressed by me.
Course Outline

This outline is subject to change. Not all material in all of the listed chapters will be useful for our purposes.

I. ‘What’s Different About Banks?’ (chapters 1-7)

   A. Intermediation Function
   B. Information and Incentive Problems
   C. Fractional Reserve Banking
   D. Balance Sheet Mismatches
   E. Regulation and Industry Differences
   F. Variety of risks and contracts

Midterm Exam I  Tuesday, February 16th (in class)

II. Capital Adequacy & Liquidity Risk Management (chapters 17-21, 26, 27)

   A. Raising Capital
   B. Liquidity Risk
   C. Asset/Liability Management
   D. Diversification
   E. Securitization and Loan Sales
   F. Other Contracts

Midterm Exam II  Tuesday, March 16th (in class)

III. Credit Risk & Interest Rate Risk Management (chapters 8, 9, 11, 12, 23, 25)

   A. Credit & Interest Rate Risk
   B. Asset & Liability Management
   C. Immunization
   D. Duration/convexity
   E. Securitization
   F. Derivatives & Other Contracts

Midterm Exam III ("final")  To Be Determined