

SUBJECT: Corporate and Investment Banking

PROFESSOR: John L. Teall

GENERAL DISCIPLINE: Finance

TERM: III Spring 2021

TOTAL LESSON HOURS: 20

LANGUAGE: English

COURSE FORMATIVE OBJECTIVES

This course introduces the functions of corporate and investment banks in the modern economy. Their essential roles will be discussed along with their regulation, activities and histories. Key financial concepts such as laddering, moral hazard, contingent claims pricing, lemons and agency problems will be among the important theoretical and analytical concepts introduced. The efficiency and rationality of financial markets will also be examined as will possible institutional dark sides, such as their potential contributions to bubbles, crashes and financial scandals.

Corporate and Investment Banking introduces institutional and market characteristics concerning corporate and investment banking along with the environments in which these institutions function. The course seeks to provide the basic theoretical background and analytical tools necessary to understand the general workings of such financial institutions and the markets in which they operate, particularly those that serve large corporations and institutions. The course will focus on a variety of developments, technologies and key concerns in financial institutions, markets and other arenas, particularly those that significantly affect the global economy.

Some introductory material will be discussed to review background topics and to ensure that all students are comfortable proceeding with more advanced materials. We will assume that students in the class have some very basic exposure to many of the topics discussed in the course, but are interested in enhancing this background, particularly with respect to their applications to funding larger institutions.

INTENDED LEARNING OUTCOMES

- Students successfully completing this course should expect to possess and be able to apply quantitative skills and the theoretical background along with related empirical knowledge to enable them to better function in and with these financial institutions in professional settings.

- Students will demonstrate a functional grasp of how general and certain unique financial tools are applied in valuation and hedging scenarios.
- Students successfully completing this course will be able to discuss the complex relationships between and among financial institutions and regulators, producers in the real sectors, and the general public.

PREREQUISITES

An introductory financial management or investments course or an appropriate combination of accounting and economics courses. Feel free to discuss this issue with your instructor.

COURSE CONTENTS

Financial Institutions
Money
Financial Intermediation
Corporate Securities as Options and Capital Structure
The Principal-Agent Problem
Moral Hazard
Adverse Selection and Lemons Markets
Commercial Banks and other Depository Institutions
Bank Safety
What Makes Banks Special?
Banks as Monitors and Fiduciaries
Structured Lending
Asset-Liability Hedging
Banking Crises and Regulators
Investment Banks and Initial Public Offerings
The Underwriting Process
Direct Listings
The IPO Underpricing Anomaly
Structured Securities and Securitization

EXTENDED PROGRAM AND REFERENCE READING MATERIAL

Most of the course will be delivered online. A set of WebEx sessions has been scheduled in which students will be expected to participate. There is a website for the course located at <http://www.jteall.com/cib.htm>. Materials for the course can be obtained by linking from this site. Certain materials will also be available through the Moodle platform.

The primary reading materials for this course will be in the "Coursepack," available at <http://www.jteall.com/cibcoursepack.htm>. This Coursepack will be the most comprehensive source of materials to be covered in exams. There will be problems and exercises at the end of each chapter, followed by detailed solutions. Some material in this coursepack will be highlighted in a light shade of red; these sections should be regarded to be optional for exam purposes. Do read through relevant materials before each scheduled session. I would like to use much of our time together on Webex discussing complications, ambiguities, extensions and addressing your questions and problems. The ordering of the readings in the Coursepack will correspond to the course discussions on Webex, in the same order, covering the same material, perhaps with different details, though not necessarily with the same lettering/numbering.

A second readings source for this course, used primarily during Webex presentations, will be the "PowerPoint Slides," largely a condensed version of the Coursepack, will be available through the course website at <http://www.jteall.com/cibslides.htm>. I will rely on these slides during the Webex communications.

A third readings source, used primarily for readings for specific students and groups and for additional readings added during the term of the course is titled "Additional Readings." These readings are available at http://www.jteall.com/cibadditional_readings.htm.

For calculations, a series of MS-Excel worksheets are available through the "Lecture Spreadsheets" link at <http://www.jteall.com/cibLectureSpreadsheets.xlsx>. I have placed and will add material to this page as the course progresses.

There are a number of videos, both long and short that I believe might be helpful to you in this course. They will be available through links at <http://www.jteall.com/cibvideos.htm>. Some of these videos will be referred to in the course contents that follow.

As part of the course grading evaluation, students will complete projects as described on the "Projects and Presentations" web page. There are a number of choices of projects, which will be available through links at <http://www.jteall.com/cibtechnology.htm>.

Again, the primary reading source for this course will be placed on line for students at <http://www.jteall.com/cibcoursepack.htm>. While no textbook will be required for the course, and a number of texts will make suitable reference sources, the instructor suggests the following:

Saunders, Anthony and Marcia Cornett (2019): *Financial Markets and Institutions*, 7th Edition, New York: McGraw-Hill. ISBN10: 1259919714; ISBN13: 9781259919718.

Pre-readings: Coursepack: [Chapter 1](#), [Chapter 2](#)

Introductory video: Introduction to CIB: <http://www.jteall.com/cibintro.mp4>.

LESSON 1 – May 12, 2:00PM - 6:00PM

1. An Introduction to Financial Institutions
2. An Introduction to Money
3. The Payments System
4. An Introduction to Central Banks
5. An Introduction to Financial Intermediation
6. Financial Sector Growth and Real-Sector Productivity
7. Financialization
8. Early History of Money
9. A History of Merchant Banking through the Reformation
10. The Expansion and Modernization of European Banking
11. Origins of Central Banking
12. A Brief History of Investment Banking

Readings: Coursepack: [Chapter 1](#), [Chapter 2](#)

Videos: Cryptocurrency, Distributed Ledgers and Blockchains:

<https://vimeo.com/351197360/789a2fab92>, The Medieval Bank, the Medici and the Church!

Economics!: <https://www.youtube.com/watch?v=DVmNa52Qpwc>

LESSON 2 – May 13, 2:00PM - 4:00PM & 5:00PM – 7:00PM

1. Introduction to Microeconomic and Financial Theory for Banking
2. The Principal-Agent Problem
3. Moral Hazard
4. Limited Shareholder Liability and Moral Hazard
5. Black-Scholes Valuation of Corporate Securities
6. Contracting
7. Adverse Selection and Lemons Markets
8. Mitigating Information Problems
9. Commercial Banks
10. Variations of Depository Institutions and Banks
11. What Makes Banks Special?
12. Corporate Bank Lending Activities
13. Other Corporate Banking Activities

Readings: Coursepack: [Chapter 3](#), [Chapter 4](#)

Videos: The Black-Scholes Options Pricing Model: <https://vimeo.com/351000132/6a9d6fa53a>.

Corporate Securities as Options: <https://vimeo.com/346202567/6c1543a740>; Implied Volatility: <https://vimeo.com/351001396/65adcc8764>

Additional materials: Black-Scholes Option Pricing, Black-Scholes Variance Estimate and Options & Risky Debt, three worksheets available through the "Lecture Spreadsheets" link at <http://www.jteall.com/cibLectureSpreadsheets.xlsx>.

LESSON 3 – May 18, 2:00PM - 6:00PM

1. Sources of Bank Risk
2. Credit Risk and Other Types of Default Risk
3. Interest Rates and Interest Rate Risk
4. Asset-Liability Management
5. Bank Investment in Government Securities Markets
6. Bank Issues and Sales of Securities
7. Structured Finance and Derivative Instruments
8. Eurocurrency Issues
9. Bank Stress and its Measurement
10. Bank Failure and its Resolution
11. Contagion, Interconnectedness and Systemically Important Financial Institutions
12. Bank Crises
13. Introduction to Bank Regulation
14. Prudential Regulation
15. Bank Regulators
16. Managing the Moral Hazard Problem

Readings: Coursepack: [Chapter 5](#), [Chapter 6](#), [Chapter 8](#), and [Chapter 9](#)

Videos: Introduction to Structured Finance: <http://www.jteall.com/structuredfinance.mp4>.

LESSON 4 – May 24, 2:00PM - 6:00PM

1. Investment Banks and their Roles
2. Investment Banking Since the Great Depression
3. Introduction to IPOs: Going Public
4. Benefits and Costs of Going Public
5. Investment Banking and the Underwriting Process
6. Alternatives to Traditional Underwriting
7. Regulation of IPOs and Securities Issuance
Student Presentations as Appropriate

Readings: Coursepack: [Chapter 10](#)

LESSON 5 – May 26, 2:00PM - 6:00PM

1. The IPO Underpricing Anomalies
2. Explaining the Short-run IPO Anomalies
3. Long-Run IPO Performance
4. Seasoned Equity Offerings
5. Debt Underwriting
Student Presentations as Appropriate
Review and Q&A, as motivated by students
Any catch-up or additional items

Readings: Coursepack: [Chapter 11](#)

EXAM

One exam, June 4 (tentative), after completion of the course.

REFERENCE MATERIALS

Reading materials will be placed on line for students at <http://www.jteall.com/cibcoursepack.htm>.

Students will complete a project for the course. A variety of types of projects is available to students and are described through the course website and directly at <http://www.jteall.com/cibtechnology.htm>. Students should decide their preferred project during the first week and pay attention to various project restrictions, including due dates.

Again, the arrangements of the reading materials should clarify what to read before each lecture and which sections might be optional or review reading. Also, see above for the recommended (but not required) reference text by Saunders and Cornett.

TEACHING METHOD

- traditional lecture 40%
- videos 10%
- individual exercises 10%
- team-based or individual case studies/project 40%

ASSESSMENT METHOD

case presentation/project: 30%
class participation: 20%
exam: 50%

Additional information on each of these components of the course will be provided during the first lesson and on the course website.

NOTE ON COURSE DELIVERY

Because of the unique circumstances during the time of this course, many changes from the "usual" have been necessary. Among the changes to this course are content, delivery, role of student participation, methodology of evaluation, etc. Additional adaptations will be made as the course proceeds, and the nature of these adaptations are not yet clear.

The primary mode of contact for the course will be through Cisco Systems Webex. There is a website for the course with link <http://www.jteall.com/cib.htm>. To the extent possible, all of the written, visual and computational resources will be available by linking through this site. For example, the primary source of readings for the course, referred to as the Coursepack can be obtained by linking to <http://www.jteall.com/cibcoursepack.htm>. Do familiarize yourself with the links on the main course site.

This course is short and cannot possibly cover the broad range of fascinating topics in the fields of corporate and investment banking. The purpose of the experiential exercise for this course is to give the student an opportunity to delve further or even immerse herself into a sub-field or related field that time limitations and venue constraints preclude coverage in the course due to time constraints or cannot be covered adequately. Details concerning this part of the course are available online through <http://www.jteall.com/cibtechnology.htm>. Among the experiential exercises identified for the course on this site are: Trading Under Risk Constraints, Asset-Liability Management, Fixed Income Portfolio Dedication, Fixed Income Portfolio Immunization and Structured Securities Valuation and Hedging. Based on student interest and preferences, these case studies are subject to change through the early part of the course. Students, either individually or in groups, should either select a topic from the list given on this page, discuss his/her plans for the exercise with the course instructor or negotiate and agree to another topic and project plan with the course instructor.

Professor e-mail address: jteall@jteall.com

Course Website: <http://www.jteall.com/cib.htm>