Tasmanian School of Business and Economics

BEA705
FINANCIAL INSTITUTIONS AND MARKETS

Semester 2, 2019
Unit Outline

Dr Vladimir Volkov
## CONTACT DETAILS

### Unit coordinator

<table>
<thead>
<tr>
<th>Unit coordinator:</th>
<th>Dr Vladimir Volkov</th>
</tr>
</thead>
<tbody>
<tr>
<td>Campus:</td>
<td>Hobart</td>
</tr>
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</tr>
<tr>
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<td>Room 157, Math building, Sandy Bay</td>
</tr>
<tr>
<td>Consultation hours:</td>
<td>By appointment</td>
</tr>
</tbody>
</table>
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NOTICE

This Unit Outline refers to the *Unit Outline Essential Information* resource which includes information, policies and requirements relevant to this unit. **You must read the Essential Information resource as it is considered part of this Unit Outline.**

WHAT IS THE UNIT ABOUT?

**Unit description**

Financial market shocks often spread rapidly across different asset classes and between countries. This unit examines the structural reasons for these interrelationships, including financial intermediation, risk management products and regulatory structure. Attention is paid to the challenge of accurate measurement and effective management of the inherent financial risks in the activities of financial institutions. In particular, covered topics include:

- Principles of financial management for depository financial institutions;
- Various types of financial risks confronted by financial institutions;
- Concepts, models, techniques and approaches to mitigate these risks theoretically and practically;
- International bank management and international financial services with regulatory frameworks.

**Intended Learning Outcomes**

On completion of this unit, you will be able to:

1. Explain the features of financial institutions and their roles in an economy
2. Evaluate how financial institutions assess and manage risks from modern financial instruments and different financial markets
3. Analyse the regulation framework for banks and other financial intermediaries in a global context
Graduate Quality Statement

Successful completion of this unit supports your development of course learning outcomes, which describe what a graduate of a course knows, understands and is able to do. Course learning outcomes are available from the Course Coordinator. Course learning outcomes are developed with reference to national discipline standards, Australian Qualifications Framework (AQF), any professional accreditation requirements and the University of Tasmania’s Graduate Statement.

The University of Tasmania experience unlocks the potential of individuals. Our graduates are equipped and inspired to shape and respond to the opportunities and challenges of the future as accomplished communicators, highly regarded professionals and culturally competent citizens in local, national, and global society. University of Tasmania graduates acquire subject and multidisciplinary knowledge and skills, and develop critical and creative literacies and numeracies and skills of inquiry. They demonstrate the ability to apply this knowledge in changing circumstances. Our graduates recognise and critically evaluate issues of social responsibility, ethical conduct and sustainability, are entrepreneurial and creative, and are mindful of their own wellbeing and that of the community. Through respect for diversity and by working in collaborative ways, our graduates reflect the values of the University of Tasmania.

Alterations to the unit as a result of student feedback

This unit has been restructured for 2019. An online e-quiz has been excluded. Major assignment (Report) has been significantly extended to improve research skills of students.

Prior knowledge &/or skills

- BEA683 Economics for Managers

In addition to material covered in prerequisite units, it will be assumed that students are familiar with basic spreadsheet functions in Excel, how to use a financial calculator and the Harvard referencing system.

Online help with Excel is available at

http://www.utas.edu.au/it_training/

To know how to use a financial calculator is recommended as it is very fast to assist with solving numerical problems. However, this skill is not essential if students can operate on a simple non-programmable calculator.

The Harvard referencing system is detailed at

### HOW WILL I BE ASSESSED?

#### Assessment schedule

<table>
<thead>
<tr>
<th>Assessment task</th>
<th>Date due</th>
<th>Percent weighting</th>
<th>Links to Intended Learning Outcomes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Workshops Submissions – weekly, beginning week 2</td>
<td>Note: TWO (2) submissions will be randomly selected during the semester. These will contribute to your final internal result.</td>
<td>30% = (15% each)</td>
<td>LO1, LO2, LO3, LO4</td>
</tr>
<tr>
<td>Multiple Choice Quiz (Online Test)</td>
<td>Week 8, Tuesday 10 September</td>
<td>20%</td>
<td>LO1, and LO2</td>
</tr>
<tr>
<td>Major Assignment (Research Report)</td>
<td>Week 13, Monday 14th of October, 1.00pm.</td>
<td>50%</td>
<td>LO1, LO2, LO3</td>
</tr>
</tbody>
</table>

**Assessment details**

**Assessment task 1 – Workshops Submissions**

**Task description**

Each week, starting in Week 2, a set of questions or problems will be posted on MyLO. You should prepare answers for all of the questions/problems and submit these via the MyLO dropbox for the corresponding week. All submitted work must include your full name and student ID number.

You will be expected to demonstrate knowledge and critical thinking by writing answers *in your own words*.

The lecturer will randomly select 2 out of 7 weekly workshop answer submissions. The marks for these two pieces of assessment will be included in your overall internal assessment.

<table>
<thead>
<tr>
<th>Criterion</th>
<th>Measures Intended Learning Outcome:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Criterion 1</td>
<td>Identify the different roles played by different financial intermediaries.</td>
</tr>
<tr>
<td>Criterion 2</td>
<td>Analyse briefly the risks that financial institutions are exposed to.</td>
</tr>
<tr>
<td>Criterion 3</td>
<td>Analyse alternative approaches to manage financial risks.</td>
</tr>
<tr>
<td>Criterion 4</td>
<td>Identify financial risks that financial institutions are facing in the current realworld scenarios and propose feasible solutions for managing risks.</td>
</tr>
<tr>
<td>Criterion</td>
<td>Description</td>
</tr>
<tr>
<td>-----------</td>
<td>-------------</td>
</tr>
<tr>
<td>Criterion 5</td>
<td>Critically evaluate underlying concepts, assumptions, limitations and arguments associated with risk management in a contemporary context.</td>
</tr>
<tr>
<td>Criterion 6</td>
<td>Compare and contrast different existing regulation schemes.</td>
</tr>
<tr>
<td>Criterion 7</td>
<td>Explain causes of the current global financial crisis</td>
</tr>
</tbody>
</table>

**Task length**

There will be between 4 and 10 questions/problems. The specific task length for each week’s questions will be given with the question set. Students are expected to demonstrate knowledge and critical thinking by writing answers in your own words.

**Due by date**

Every week starting in week 2. You will be required to submit workshop answers (posted from the previous week) by Tuesday, 9am through the MyLO dropbox. *Submissions by email are not accepted.*

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**Assessment task 2 – Multiple Choice Quiz (Online Test)**

**Task description**

The test will comprise multiple choice and/or numerical questions and/or short essays and/or analysis problems. The test will examine various banking management issues based on all materials covered in lectures and workshops from Week 1 to Week 7 inclusive.

<table>
<thead>
<tr>
<th>Criterion</th>
<th>Description</th>
<th>LO</th>
</tr>
</thead>
<tbody>
<tr>
<td>Criterion 1</td>
<td>Identify the different roles played by different financial intermediaries.</td>
<td>LO1</td>
</tr>
<tr>
<td>Criterion 2</td>
<td>Analyse briefly the risks that financial institutions are exposed to.</td>
<td>LO1</td>
</tr>
<tr>
<td>Criterion 3</td>
<td>Analyse alternative approaches to manage financial risks.</td>
<td>LO2</td>
</tr>
<tr>
<td>Criterion 4</td>
<td>Identify financial risks that financial institutions are facing in the current realworld scenarios and propose feasible solutions for managing risks.</td>
<td>LO2</td>
</tr>
<tr>
<td>Criterion 5</td>
<td>Critically evaluate underlying concepts, assumptions, limitations and arguments associated with risk management in a contemporary context.</td>
<td>LO2</td>
</tr>
<tr>
<td>Criterion 6</td>
<td>Compare and contrast different existing regulation schemes.</td>
<td>LO3</td>
</tr>
<tr>
<td>Criterion 7</td>
<td>Explain causes of the current global financial crisis</td>
<td>LO3</td>
</tr>
</tbody>
</table>

**Task length**

1.5 hours.

**Due by date**

Week 8, Tuesday 10 September.
# Assessment task 3 – Major Assignment (Research Report)

**Task description**
The major assignment will be a group research report. You will be required to submit the assignment via the MyLO dropbox. You will need to work in a group of up to 2 students. Further details will be posted on MyLO under the Assessment link. You will be required to submit a record of individual contributions (as a percentage).

<table>
<thead>
<tr>
<th>Criterion</th>
<th>Measures Intended Learning Outcome:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Criterion 1</td>
<td>Analyse alternative approaches to manage financial risks. LO2</td>
</tr>
<tr>
<td>Criterion 2</td>
<td>Identify financial risks that financial institutions are facing in the current real-world scenarios and propose feasible solutions for managing risks. LO2</td>
</tr>
<tr>
<td>Criterion 3</td>
<td>Critically evaluate underlying concepts, assumptions, limitations and arguments associated with risk management in a contemporary context. LO2</td>
</tr>
<tr>
<td>Criterion 4</td>
<td>Compare and contrast different existing regulation schemes. LO3</td>
</tr>
<tr>
<td>Criterion 5</td>
<td>Explain causes of the current global financial crisis LO3</td>
</tr>
</tbody>
</table>

**Task length**
The report length is limited to 5000 words.

**Due by date**
Week 13 – Monday, 14th of October at 1.00pm
WHAT LEARNING OPPORTUNITIES ARE THERE?

Resources

Required readings

You will need the following text:


Recommended readings


Reading Lists

Reading Lists provide direct access to all material on unit reading lists in one place. This includes eReadings and items in Reserve. You can access the Reading List for this unit from the link in MyLO, or by going to the Reading Lists page on the University Library website.

Equipment, materials, software, accounts

In addition to the texts/software recommended above, you are also expected to be familiar with the key academic journals in the discipline from which useful insights may be derived.

Bloomberg is a useful data source for a research project.

You should aim to read widely around the assigned topics. Use resources such as www.nber.org (free to download from University computers) and www.rba.gov.au to look for recent discussions in the assigned areas. Other readings will be posted on MyLO in conjunction with lecturer slides.
Activities

Details of teaching arrangements

Lectures

Lectures are held weekly, beginning in week 1 in SB.AP16.L02.207. Your lecture will be held on **Mondays 11 am to 1 pm**.

While the lecture notes for BEA705 are available via MyLO, most of the diagrams (of which there are many) and other concepts cannot be easily understood just by reading the lecture notes. In fact some of the diagrams are incomplete and will be completed and labelled in the lectures.

Regular attendance in lectures is a first step toward a successful learning outcome. Students are strongly encouraged to attend all lectures and are expected to spend at least an hour to read through the related textbook chapters before they come to lectures. You should not expect to instantaneously "understand" all the material in each lecture; that will almost certainly require you to go away from the lecture and think carefully about what you have heard and been shown, assimilate further material from the textbook and actively participate in the tutorial program.

Workshops

Students are required to attend or review the recordings of workshops. These will be held and recorded weekly, commencing in Week 2 on Monday 13:00 noon to 13:50 in **SB.AP16.L02.207**. In the workshops you will need a copy of your submitted answers to the workshop questions. During the workshop the problems/questions will be worked through. You are encouraged to ask questions and clarify any issues that may arise.

Specific attendance/performance requirements*

In this unit, your active engagement will be monitored in the following way:

1. Weekly workshop answer submissions
2. Workshop attendant (face-to-face students)
3. Unit access and viewing statistics (MyLO)
4. Access of content (MyLO)

If you do not demonstrate evidence of having engaged actively with this unit by completing these two activities by Week 4 of semester, your enrolment may be cancelled, or you may be withdrawn from the unit.
Communication

TO KEEP UP WITH ANNOUNCEMENTS REGARDING THIS UNIT

Check the MyLO Announcement tool at least once every two days. The unit Announcement will appear when you first enter our unit’s MyLO site. Alternatively, click on the Announcement button (towards the top of the MyLO screen) at any time.

WHEN YOU HAVE A QUESTION

Other students may have the same question that you have. Please go to the Ask the Class Discussion forum on the unit’s MyLO site. Check the posts that are already there – someone may have answered your question already. Otherwise, add your question as a new topic. Students are encouraged to support each other using this forum – if you can answer someone’s question, please do. We will attempt to respond to questions within 48 business hours. If your question is related to a personal issue or your performance in the unit, please contact the appropriate teaching staff member by email instead.

WHEN YOU HAVE AN ISSUE THAT WILL IMPACT ON YOUR STUDIES OR THE SUBMISSION OF AN ASSESSMENT TASK

If you have a personal question related to your studies or your grades, please contact teaching staff by email.

For general questions about the unit, please add them to the Ask the Class Discussion forum on the unit’s MyLO site. This way, other students can also benefit from the answers.

A NOTE ABOUT EMAIL CORRESPONDENCE

You are expected to check your UTAS email (WebMail) on a regular basis – at least three times per week. To access your WebMail account, login using your UTAS username and password at https://webmail.utas.edu.au/.

You are strongly advised not to forward your UTAS emails to an external email service (such as gmail or Hotmail). In the past, there have been significant issues where this has occurred, resulting in UTAS being blacklisted by these email providers for a period of up to one month. To keep informed, please use your UTAS email as often as possible.

We receive a lot of emails. Be realistic about how long it might take for us to respond.
Concerns and complaints

The University is committed to providing an environment in which any concerns and complaints will be treated seriously, impartially and resolved as quickly as possible. We are also committed to ensuring that a student may lodge a complaint without fear of disadvantage. If you have a concern, information about who to contact for assistance is available on the ‘How to resolve a student complaint’ page.

Further information and assistance

If you are experiencing difficulties with your studies or assignments, have personal or life-planning issues, disability or illness which may affect your course of study, you are advised to raise these with the unit coordinator in the first instance.

There is a range of University-wide support services available to you including Student Learning Support, Student Advisers, Disability Services, and more which can be found on the Student Support and Development page of the University website.

Should you require assistance in accessing the Library, visit their website for more information.
<table>
<thead>
<tr>
<th>WEEK</th>
<th>DATE BEGINNING</th>
<th>TOPIC/MODULE/FOCUS AREA</th>
<th>ACTIVITIES</th>
<th>RESOURCES/READINGS/FURTHER INFORMATION</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>15 July</td>
<td>Overview of the Course - Special Functions of Financial Institutions</td>
<td>Overview of the Course</td>
<td>Ch 1</td>
</tr>
<tr>
<td>2</td>
<td>22 July</td>
<td>Overview of Risks of Financial Intermediaries</td>
<td>Overview of Risks of Financial Intermediaries</td>
<td>Ch 4, Ch 5</td>
</tr>
<tr>
<td>3</td>
<td>29 July</td>
<td>Interest Rate Risk Measurement I</td>
<td>Interest Rate Risk Management</td>
<td>Ch 6</td>
</tr>
<tr>
<td>4</td>
<td>5 August</td>
<td>Interest Rate Risk Management using derivative instruments 1</td>
<td>Interest Rate Risk Management</td>
<td>Ch 7</td>
</tr>
<tr>
<td>5</td>
<td>12 August</td>
<td>Interest Rate Risk Management using derivative instruments 2</td>
<td>Interest Rate Risk Management</td>
<td>Ch 7</td>
</tr>
<tr>
<td>6</td>
<td>19 August</td>
<td>Interest Rate Risk Management using Securitisation</td>
<td>Interest Rate Risk Management</td>
<td>Ch 8</td>
</tr>
<tr>
<td>7</td>
<td>26 August</td>
<td>Market Risk Measurement, Management and the BIS regulations</td>
<td>Market Risk Measurement and Management</td>
<td>Ch 9</td>
</tr>
<tr>
<td></td>
<td></td>
<td><strong>Mid-semester break: 3 September to 7 September</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>8</td>
<td>9 September</td>
<td>Central Banks and the Federal Reserve System, RBA</td>
<td>The RBA and Australian monetary policy</td>
<td>TBA</td>
</tr>
<tr>
<td>9</td>
<td>16 September</td>
<td>Credit Risk Measurement: Individual Loan Risk</td>
<td>Credit Risk Measurement and Management</td>
<td>Ch 10</td>
</tr>
<tr>
<td>10</td>
<td>23 September</td>
<td>Credit Risk Measurement: Loan Portfolio and Concentrate Risk</td>
<td>Credit Risk Measurement and Management</td>
<td>Ch 11</td>
</tr>
<tr>
<td>11</td>
<td>30 September</td>
<td>Credit Risk Management using Derivatives, Loan Sales and Securitization</td>
<td>Credit Risk Measurement and Management</td>
<td>Ch 11</td>
</tr>
<tr>
<td>12</td>
<td>7 October</td>
<td>Foreign Exchange Risk Measurement</td>
<td>Foreign Exchange Risk Measurement</td>
<td>Ch 13</td>
</tr>
<tr>
<td>13</td>
<td>14 October</td>
<td></td>
<td>REVIEW</td>
<td></td>
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</table>

**Examination Period: 26 October to 12 November**
The Tasmanian School of Business and Economics (TSBE) is currently in the process of applying for business accreditation with the Association to Advance Collegiate Schools of Business (AACSB) – the lead program for accrediting business schools globally. AACSB seeks to connect educators, students, and business to achieve a common goal – to create the next generation of business leaders.

By joining AACSB and going through the accreditation process, TSBE is joining a global alliance committed to improve the quality of business education around the world, and to share the latest innovations in business education. Gaining Business Accreditation with AACSB is a multi-year process involving TSBE demonstrating our performance against the 15 accreditation standards.

Once complete, TSBE will join a select community of accredited business schools, with only 7% of all business schools globally having completed the AACSB process. This will further enhance the reputation of TSBE, and further enhance the global recognition of your qualifications. To find out more about AACSB click here.