UNIT OUTLINE

2005

ECON335

THE ECONOMICS OF FINANCIAL INSTITUTIONS

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Dr Sean Turnell
Lecturer-in-charge
ECON 335: ECONOMICS OF FINANCIAL INSTITUTIONS

I. COURSE OVERVIEW

Banking and finance institutions today have evolved into complex organisms that play a centrally important role in the modern economy. The management of financial corporations is a highly specialised task with many unique aspects. And the success (or failure) of banks carries the potential for significant ramifications in the markets for goods, services and labour across the wider macroeconomy.

This course:

• outlines the structure of the Australian financial sector
• analyses the risks of banking and how to manage them effectively
• examines financial intermediation theory
• examines the rise of the funds management industry
• examines the role financial institutions can play in a country's economic development
• puts these in the context of official supervision and surveillance.

The course is designed to equip those who will work in banking, securities or government.

II. ENQUIRIES

Sean Turnell (C5C Rm 380; Tel: 9850 8493, sturnell@efs.mq.edu.au)

If you have any enquiries about the course please contact me via any of the media above.

III. COURSE TIMETABLE

Students attend three classroom hours per week, comprising lectures using a mix of theory and practical applications, delivered in Second Semester in the following session:

Friday 6 - 9 p.m., E7B Mason Theatre

Students are expected to attend the full quota of lectures; all the material covered in class is examinable.

IV. ASSESSMENT

Essay (30%)
All students are required to complete an essay (on the set topic – see p.7) in class, on Friday 14 October (Week 9). Completing the essay, on this day and in class, is compulsory. Normal exam conditions will apply.

**Exam (70%)**

The final examination will consist of essay-type questions.

V. **LECTURE TOPICS: OVERVIEW**

WEEK:  
1. Introduction and Survey of Global Financial Institutions
2. The Rationale of Financial Institutions
3. The Evolution of Financial Institutions
4. The Management of Financial Institutions I – Liabilities and Liquidity
5. The Management of Financial Institutions II – Securities Portfolio/Capital
6. The Management of Financial Institutions III – Lending and loan portfolio
7. Introduction to Funds Management and Insurance
8. ----NO CLASS----
9. In Class Essay
10. Financial Market Consolidation
11. Supervision I: Central Banking
12. Supervision II: Capital Adequacy and Regulation
13. Financial Institutions and Economic Development

VI. **USEFUL REFERENCES**

The textbook for Econ 335 is:

In addition to our main text, students might find the following list of references to be useful.

(a) **Australian**


(b) **International**


VII. **READING LIST BY LECTURE TOPIC**

1 - 3. **Introduction and Survey/The Evolution and Rationale of Financial Institutions**

Role of financial intermediaries
Changing pattern of financial institutions
History of banking
Commercial banking in Australia

Hogan, *et. al* (2004), Ch.1.

Saunders, A. and H. Lange (1996), Chs. 1, 2 and 3.

Valentine, T., Ford, G. and R. Copp (2003), Ch. 4.


McGrath, M. and C. Viney (2003), Chs. 1, 2, 3.


Sinkey, J.F. (2003), Ch.1.

4 – 6. Financial Institutions Management

Hogan et al (2004), Chs.5,6, 7, 8, 9, 10, 11, 12.

7. Funds Management and Insurance

Hunt, B. and Terry, C. (2005), Ch. 5.

APRA website, www.apra.gov.au


8 – 9. No Class/In-Class Essay

10. Financial Market Consolidation/Change

Hogan, et. al. (2004), Ch.1.


11. **Supervision I: Central Banking**

Hogan, *et. al.* (2004), Ch.1.

Bank for International Settlements (BIS), website, www.bis.org


See also 'Mark Bernkopf's Central Banking Resource Centre', <http://patriot.net/~bernkopf/>.

12. **Supervision II: Capital Adequacy and Regulation**

Hogan, *et. al.* (2004), Ch.1.

Valentine, T., Ford, G. and R. Copp (2003), Ch.6.


Australian Prudential Regulatory Authority (APRA), website, www.apra.gov.au


13. **Financial Institutions and Economic Development**


VIII. **ESSAY TOPIC**

On Friday, 14 October 2005, students in Econ 335 will be required to attend the normally scheduled lecture in order to complete the Class Essay. The topic is outlined below, together with the readings required to write it. These readings are sufficient to answer the question and they are to be consulted, read and understood, prior to the class in which the essay is to be written. Neither the readings, nor any other material, can be consulted during the time allotted for writing the essay, and for which normal University exam conditions will apply. These conditions include the provision of relevant ID. The essay is to be written in the exam booklet provided.

Time allotted for writing the essay is 90 minutes. The essay will be marked as an ‘exam essay’ and, as such, you will not be required to provide references, footnotes and other such accoutrements of a ‘take home’ essay. On the other hand, it must be stressed that the essay should be written in a ‘formal’ way, and marks will accrue for such attributes as quality of expression, writing style, strength and logic of argument, and so on.

The topic:

On 9 June 2004 the Group of Eight leading industrial nations (the ‘G8’) announced a series of initiatives designed to reduce global poverty and inequality. These initiatives, collectively labelled the ‘G8 Action Plan on Poverty: Applying the Power of Entrepreneurship to the
Eradication of Poverty’, posited a substantial role for financial institutions. Specifically, what have become known as Microfinance Institutions (MFIs) were seen as crucial. The following is an extract from the 9 June Press Release of the G8:

**Expanding Access to Microfinance for Entrepreneurs**

Entrepreneurs, no matter how small, need access to capital. Microfinance programs have provided small amounts of capital to entrepreneurs for many years -- benefiting women in particular. Sustainable microfinance can be a key component in creating sound financial market structures in the worlds poorest countries. It is often the first step in launching SMEs, the beginning of what should be a continuum of credit access necessary to support the maturation of companies in developing countries. In anticipation of the UN-designated international year of micro-credit in 2005, G8 countries will work with the World Bank-based Consultative Group to Assist the Poor (CGAP) to launch a global market-based microfinance initiative. To assess the status and effectiveness of current microfinance programs, G8 countries will work with CGAP to promote best practices in microfinance for developing countries. We endorse the Key Principles of Microfinance, compiled by CGAP and its members and will work with CGAP on ways to:

- Focus on institutional best practices for expanding and mainstreaming sustainable microfinance.
- Develop a microfinance institution code of conduct based on CGAPs efforts to identify key principles for microfinance lending…
- Assist developing countries to improve their legal and institutional frameworks for microfinance so it can become sustainable and more widely available…

The precise question will be revealed on 14 October – but in order to answer it, you’ll need to know:

- What microfinance is.
- What are some of the key principles of microfinance?
- How does microfinance help the poor?
- Savings and microfinance.
- What are some of the challenges and/or weaknesses of microfinance?

**Readings**

The following documents from the World Bank-sponsored ‘Consultative Group to Assist the Poorest’ (CGAP) are ideal:

http://www.cgap.org/about/microfinance.html

http://www.cgap.org/keyprinciples.html

http://www.cgap.org/about/faq08.html

http://www.cgap.org/docs/FocusNote_24.html