



EC/IB 342 - FINANCE AND BANKING IN THE EUROPEAN UNION

IES Abroad Freiburg

European Union Program Syllabus

SEMESTER: Spring/Fall

DESCRIPTION:

An analysis of international finance and bank management with particular emphasis on the structure and operation of banking systems and capital markets within the European Union. The course covers the instruments and methods of international financial intermediation, the European Monetary Union (EMU), the Euro, and the reforms in EU-associated East-Central Europe, with regard to their impact on banks, insurance companies and capital markets from the EU to the U.S.

CREDITS: 3

CONTACT HOURS: 45

INSTRUCTOR:

LANGUAGE OF INSTRUCTION: English

ADDITIONAL COST: None

PREREQUISITES: Previous course work in economics, finance or banking.

METHOD OF PRESENTATION:

Discussion, case studies, lectures, and student presentations.

REQUIRED WORK AND FORM OF ASSESSMENT:

- Class participation - 10%
- Midterm - 20%
- Presentation - 15%
- Term paper - 25%
- Final exam - 30%

Course Participation

Course participation forms 10% of the course grade. Students have to actively participate in class discussions based upon the compulsory readings and other teaching material given at each session.

A	Excellent participation The student's contributions reflect an active reading of the assigned bibliography. Skillfully synthesizes the main ideas of the readings and raises questions about the applications and implications of the material. Demonstrates, through questions and comments, that he or she has been capable of relating the main ideas in the readings to the other information discussed in the course, and with his or her own life experience. The student makes informed judgments about the readings and other ideas discussed in class, providing evidence and reasons. He/she respectfully states his/her reactions about other classmates' opinions and is capable of contributing to the inquiry spiral with other questions. The student gets fully involved in the completion of the class activities.
B	Very good participation The student's contributions show that the assigned materials are usually read. Most of the time the main ideas are identified, even though sometimes it seems that applications and implications of the information read were not properly reflected upon. The student is able to construct over others' contributions, but sometimes seems to interrupt the shared construction to go over tangents. He/she is respectful of others'

	ideas. Regularly involved in the activities but occasionally loses concentration or energy.
C	Regular participation The participant evidences a regular reading of the bibliography, but in a superficial way. He/she tries to construct over others' ideas, but commonly provides comments that indicate lack of preparation about the material. Frequently, contributions are shallow or unarticulated with the discussion in hand.
F	Insufficient participation Consistently, the participant reads in a shallow way or does not read at all. Does not participate in an informed way and shows lack of interest in constructing over others' ideas.

TERM PAPER & PRESENTATION

Each student is assigned one presentation on either a case study or discussion topic. Presentations must be prepared with a handout. Each student is allowed ca. 10 minutes for presenting their topic. Term papers are 10 - 12 pages long papers based on the chosen topic for presentation in class. Together with the presentation, students turn in a short outline of the paper consisting of a thesis statement and at least three sources used for the presentation. The paper must meet the requirements as published in the writing guide published on the Moodle page. Deadline for the papers vary based on the chosen topic. Each paper is due one week after the given presentation. In case of a course related trip in between, the paper is due in the first session after the trip.

FINAL EXAM

Written exam at the end of the semester. The instructor will provide detailed information at the end of the term.

LEARNING OUTCOMES:

By the end of the course, students will be able to understand the following concepts:

- Definition and function of money and interests rates. What determines interest rates?
- Characteristics of the financial system and contribution to the economy, particularly of banking and in Europe
- Main risks of the financial sector and how are these risks addressed institutionally and politically, particularly in Europe.
- The process of building a monetary union in Europe, its costs and advantages and its virtues and flaws.
- The impact of the European Monetary Union on the economy and on the financial and banking systems of its members.

ATTENDANCE POLICY:

All IES courses require attendance and participation. Attendance is mandatory per IES Abroad policy. Any unexcused absence will incur a penalty on your final course grade (1 absence - 1%, 2nd absence -2%, 3rd absence – 3%). Any student who has more than three (3) unexcused absences will receive an “F” as the final grade in the course. Any student who misses more than 25% of a course, whether the absences are excused or are unexcused, will receive an “F” as the final grade in the course. Absences due to sickness, religious observances, and family emergencies may be excusable at the discretion of the Center Director. In the case of an excused absence, it is the student’s responsibility to inform the Academic Dean of the absence with an Official Excused Absence Form, as well as any other relevant documentation (e.g. a doctor’s note), and to keep a record thereof. The absence form must be turned in as soon as possible before the class, in the case of a planned absence, or immediately upon return to the Center, in the case of an unplanned absence, in order for the absence to be considered excused. It is also the student’s responsibility to inform the professor of the missed class. Students can collect and submit the Official Excused Absence Form from the office of the Academic Dean.

TESTS, QUIZZES, OR PRESENTATIONS MISSED DURING UNEXCUSED ABSENCES CANNOT BE MADE UP!

ASSIGNMENTS NOT HANDED IN ON THE DUE DATE WILL BE SUBJECT TO A 3% PENALTY PER DAY POST-DUE DATE (with the exception of students who have an excused absence).

CONTENT:

Week	Content	Assignments
Session 1	“Overture”: Finance and Banking in the European Union <ul style="list-style-type: none"> Who is who? Expectations 	Required reading <ul style="list-style-type: none"> Mishkin, Matthews, Giuliadori, <u>“The Economics of Money, Banking & Financial Markets – European Edition”</u> Chapter 1
Part 1: Money & Interest Rates		
Session 2	Money and Interest Rates (I) <ul style="list-style-type: none"> Function and Meaning of Money History of Money Money Theory Philosophy What do Interest Rates Mean and What is their Role in Valuation? 	Required reading <ul style="list-style-type: none"> Mishkin, Matthews, Giuliadori, <u>“The Economics of Money, Banking & Financial Markets – European Edition”</u> Chapter 3 and Chapter 4 Case Study (short) <ul style="list-style-type: none"> What if Central Banks Issued Digital Currency? Alternative: Mastercard: Creating a World Beyond Cash
Session 3	Money and Interest Rates (II) <ul style="list-style-type: none"> The Behavior of Interest Rates: Risk Structure and term structure of Interest Rates 	Required reading <ul style="list-style-type: none"> Mishkin, Matthews, Giuliadori, <u>“The Economics of Money, Banking & Financial Markets – European Edition”</u> Chapter 5 and Chapter 6 Case Study (short): <ul style="list-style-type: none"> Carrefour bond issue
Part 2: The Banking Industry		
Session 4	Banks and Financial Institutions (I): Overview of the Financial System <ul style="list-style-type: none"> Function and Structure of Financial Markets Financial Market Instruments International Financial Markets Functions and types of financial intermediaries 	Required reading <ul style="list-style-type: none"> Mishkin, Matthews, Giuliadori, <u>“The Economics of Money, Banking & Financial Markets – European Edition”</u> Chapter 2 Case Study: <ul style="list-style-type: none"> Deutsche Bank (A)
Session 5	Banks and Financial Institutions (II): Banking Industry: Structure and Competition <ul style="list-style-type: none"> The Single Banking Market in Europe Competition and Bank Consolidation Financial Innovation and Information Technology Banking Regulations Structure of the European commercial banking industry 	Required reading <ul style="list-style-type: none"> Mishkin, Matthews, Giuliadori, <u>“The Economics of Money, Banking & Financial Markets – European Edition”</u>, Chapter 12 Case Study: <ul style="list-style-type: none"> Deutsche Bank Restart: Goodbye Goldman Sachs of Europe?

Experiencing Europe: European Parliament Course-Related Trip, Destination: Strasbourg, France (1 day)		
Part 3: Risk		
Session 6	Banking Risks (I): An Economic Analysis of Financial Structure <ul style="list-style-type: none"> • Basic facts about financial structure • Transaction costs • Asymmetric information: adverse selection and moral hazard. The “lemons problem” • Conflicts of Interests 	Required reading <ul style="list-style-type: none"> • Mishkin, Matthews, Giuliodori, “<u>The Economics of Money, Banking & Financial Markets – European Edition</u> Chapter 6 Case Study: <ul style="list-style-type: none"> • Conflict of Interest at Uptown Bank
Experiencing Europe: EU Institutions Course Related Trip, Destinations: Brussels, Belgium, and Paris, France (7 days)		
Session 7	Banking Risks (II): Financial Crises and the subprime meltdown <ul style="list-style-type: none"> • Factors causing financial crises • Dynamics of past financial crises • The subprime financial crisis of 2007-8 • Dynamics of the Eurozone financial crisis 	Required reading <ul style="list-style-type: none"> • Mishkin, Matthews, Giuliodori, “<u>The Economics of Money, Banking & Financial Markets – European Edition</u> Chapter 9 Case Study: <ul style="list-style-type: none"> • Euro zone convergence, divergence... and then what ?
Session 8	Banking Risks (III): Banking and the Management of Financial Institutions <ul style="list-style-type: none"> • The bank balance sheet and basic banking • General Principles of Bank Management • Managing credit risk • Managing interest-rate risk • Off-balance sheet activities 	Required reading <ul style="list-style-type: none"> • Mishkin, Matthews, Giuliodori, “<u>The Economics of Money, Banking & Financial Markets – European Edition</u> Chapter 10 Case Study: <ul style="list-style-type: none"> • JP Morgan & the London Whale
Session 9	Banking Risks (IV): Hedging with Financial Derivatives <ul style="list-style-type: none"> • Forward Markets • Financial Futures Markets • Stock Index Futures • Options • Interest-Rate Swaps • Credit Derivatives 	Required Readings: <ul style="list-style-type: none"> • Mishkin Eakins, Financial Markets and Institutions 7e Chapter 24 (NB: it’s a different book!) Case Study: <ul style="list-style-type: none"> • Hedging at Porsche
Session 10	Midterm on Parts 1-3	
Part 4: Regulation		
Session 11	Banking Regulations: Financial Regulation	Required readings:

	<ul style="list-style-type: none"> Asymmetric information and financial regulation Advantages and disadvantages of financial regulation Banking crises and regulation Bank regulation after the subprime crisis 	<ul style="list-style-type: none"> Mishkin, Matthews, Giuliodori, <u>"The Economics of Money, Banking & Financial Markets – European Edition</u> Chapter 11 <p>Case Study:</p> <ul style="list-style-type: none"> Wirecard: The Downfall of German Fintech Star
<p style="text-align: center;">Experiencing Europe: EU Funds in the Region Course Related Trip, Destination: South Baden, Germany– 1 day</p>		
Session 12	Corporate Governance in the Euro area <ul style="list-style-type: none"> Corporate Governance and Agency Costs Monitoring by the Board of Directors and Others Compensation Policies Managing Agency Conflict Regulation Characteristics of Corporate Finance and Corporate Governance in the Euro area Compared to the US 	<p>Recommended Readings:</p> <ul style="list-style-type: none"> Berk and De Marzo, <u>Corporate Finance</u> 5th Edition, Chapter 29 <p>Case Study:</p> <ul style="list-style-type: none"> Note on corporate governance systems: US, Japan and Germany Deutsche Bank and the road to Basel III
Session 13	Ownership Structure and Investor Relations <ul style="list-style-type: none"> Ownership Structure Rating Agencies Financial Transparency and Information Disclosure (Accounting Practices, "Comply or Explain") 	<p>Case Study:</p> <ul style="list-style-type: none"> Incentive Strategy II: Executive Compensation and Ownership Structure Overview of Credit Ratings
Part 5: The Euro and the EU		
Session 14	The European Union 1945 to 2010 (Focus: Economy, Banking, and Finance) <ul style="list-style-type: none"> History and Development from WW II to European Union (Founding European Economics) Community, European Monetary Union) (International) Importance Now vs. Then. The Creation of Monetary Zones and Optimal Currency Areas 	<p>Required reading</p> <ul style="list-style-type: none"> Mishkin, Matthews, Giuliodori, <u>"The Economics of Money, Banking & Financial Markets – European Edition</u> Chapter 18 <p>Case Studies:</p> <ul style="list-style-type: none"> Europe: An Ever Closer Union? Landmann: On the Macroeconomics of the European Divergence

Session 15	The European Monetary Union (EMU) <ul style="list-style-type: none"> History - the Evolutionary Process - and Development, Importance and Outlook (From Bretton Woods to the EMU) Coordination of European Monetary and Exchange Rate Policies, Functions and Usage of the ECU 	Required Readings: <ul style="list-style-type: none"> De Grauwe "<u>Economics of Monetary Union</u>" 14th Edition <ul style="list-style-type: none"> Chapter 6 and 7 <u>The Economic and Monetary Union: Past, Present and Future</u> Case Studies: <ul style="list-style-type: none"> Who Broke the Bank of England?
Experiencing Europe: EU Member States Course Related Trip Destinations: 2 countries (see selection in description below) – 7 days		
Session 16	The European Central Bank and Economic Policy <ul style="list-style-type: none"> The Transition from the European Monetary Institute (EMI) to the European System of Central Banks (ESCB) The Institutional Setting Monetary Policy Instruments The Stability and Growth Pact US Fed vs. the Deutsche Bundesbank vs. the ECB 	Required Readings: <ul style="list-style-type: none"> De Grauwe "<u>Economics of Monetary Union</u>" 14th Edition <ul style="list-style-type: none"> Chapter 9 and 10 Case Studies: <ul style="list-style-type: none"> Latvia: Navigating the Strait of Messina
Session 17	Banking within the EU and the EMU <ul style="list-style-type: none"> Implications of EMU on Banking and Financial Markets (Effects of EMU on the Banking Systems and Bank Consolidation. Banking Strategies after the Euro.) 	Required Readings: <ul style="list-style-type: none"> De Grauwe "<u>Economics of Monetary Union</u>" 14th Edition, Chapter 12 Part 1 Case Study: <ul style="list-style-type: none"> Iceland (A) Iceland's Landbanski Islands HF: Where to from here?
Session 18	The Euro <ul style="list-style-type: none"> The Euro's International Role and Implications on the US Dollar (The Euro as International Currency, Implications for International Financial Markets) The Euro and Central European Transition / Application Countries (EU Enlargement: Criteria, Candidates and Process) 	<ul style="list-style-type: none"> De Grauwe "<u>Economics of Monetary Union</u>" 14th Edition, Chapter 12 Part 2 Case Study: <ul style="list-style-type: none"> A Wider Europe: The Challenge of EU Enlargement Bulgaria: On the Road to EU Membership
Session 19	Final Exam (tba)	

COURSE RELATED TRIPS:

- Franco-German History Trip: Alsace, France– 1 day
 During the first course related trip you will visit two significant historical and cultural landmarks in Franco-German history. You will have guided tours and learn about how age-old controversies and catastrophes in the heartland of Europe are represented, the role of memorials in constructing a European identity, and the challenges of overcoming centuries of conflict and rivalry.
- Germany in Europe: Then and Now Trip: Berlin, Germany – 5 days

During the course-related trip to Berlin, you will continue to learn about the past and present of German culture, economy and politics of Germany. Historically this capital is a crucial place if one wants to understand the importance German politics has for the dynamics of European integration. In Berlin you will learn about the fall of the Berlin Wall, the reunification of Europe after the end of the Cold War, the challenges that emerged during the process of post-communist transition and about Germany's hegemonic position within the EU.

- EU Parliament Trip: Strasbourg, France – 1 day

During this one-day trip, which is thematically linked to the EU Institutions trip you will visit the European Parliament in session in Strasbourg, France. There you will attend the parliamentary session and meet a Member of European Parliament who will discuss current events and elaborate on the workings of the European Parliament.

- EU Institutions Trip: Brussels, Belgium and Paris, France – 7 days

This course related trip will take you first to Brussels, the EU's institutional power center. In Brussels you will have the opportunity to meet with not only EU officials but also representatives of national delegations to the EU, think tanks and NGOs, as well as academic experts. The EU institutions you will visit include the European Commission, the Council of the EU and the European Council and you will have a chance to discuss with those actors who draft, shape and finally take decisions in the European Union. You will continue to have first-hand experience of the EU by visiting various agencies, institutions, and museums in Paris, you will meet French academic experts to discuss French culture, economy, politics and society.

- EU Funds in the Region Trip: South Baden, Germany– 1 day

This day trip will start with a meeting where an expert from the region will introduce you to EU's agricultural and structural funds and their implementation with examples from the region. Following the meeting you will visit a family farm that is typical for South Baden.

- EU Member States Trip - 7 days

Students choose 1 out of the three following course related trip options, e.g.:

- 1) Stockholm, Sweden; Warsaw, Poland/Prague, Czechia
- 2) Rome, Italy; Budapest, Hungary
- 3) Athens, Greece; Sofia, Bulgaria/Bucharest, Romania

The destinations may vary according to the topicality and nature of challenges of the EU and its integration process. The member states of the EU are still characterized by different state structures, economic ideologies and cultural identities. This last course-related trip gives you the opportunity to choose between three different trip options. On these trips, you will learn about the current challenges of European integration. Experiencing the particularities and cultural diversity of these societies is essential in order to understand the variation in terms of domestic debates and national preferences when it comes to such important issues like, for instance, immigration, macroeconomic integration as well as European security.

REQUIRED READINGS:

Each session students are required to read one case study. We will discuss the case study in class for approximately 20-30 minutes. Student presentations and assignments will be based on these case studies.

Mishkin, Frederic et. Al. (2018) The Economics of Money, Banking & Financial Markets – European Edition Pearson UK
De Grauwe, Paul (2018) "Economics of Monetary Union" 12th Edition Oxford University Press, UK

Some sessions might require additional readings from other books, which will be provided on Moodle.

RECOMMENDED READINGS:

Recommended readings provide the theoretical framework necessary to correctly understand and interpret the case studies. Apart from discussing the required case study, the rest of each session will consist of a presentation by the instructor of the recommended readings and of the discussion attempting to connect the more general content from the lecture part, with the applied examples seen in the case studies.

For the first part, the course will follow the textbook.

ADDITIONAL RESEARCH SOURCES:



Artis, Michael, Axel Weber, and Elizabeth Hennessy, eds. *The Euro: A Challenge and Opportunity for Financial Markets*. London/New York: Routledge/SUERF, 2000

Centre for Economic Policy Research discussion papers: www.cepr.org

Deutsche Bank Research Enlargement Monitor: Reports: www.dbresearch.com

European Central Bank: Monthly Bulletin, working papers and speeches: www.ecb.org

European Investment Bank: Working Papers: www.eib.org

European Bank for Reconstruction and Development: Reports: www.ebrd.com

EU-Commission: Bulletins, reports, working papers: europa.eu.int/comm.

European Financial Management: www.efmaefm.org

IMF Publications: www.imf.org

Standard and Poors Rating Direct: www.standardpoors.com

United Nations Economic Commission for Europe: www.unece.org

INSTRUCTOR BIOGRAPHY: