MBA F718

The History of Finance

Winter 2021 Course Outline

Finance and Business Economics Areas

DeGroote School of Business

McMaster University

Course Objective

This course explores the emergence, evolution, and future of the tools and organizations that make modern finance possible. Through the study of the history of payments, debt, banking, corporations, markets, derivatives, pensions, insurance companies, and investment funds students will learn why such institutions are organized as they are today. Class discussions and the consideration of related case studies will provide students with modern perspectives and insights regarding how better versions might be designed to tackle the challenges of the 21st century. This course will be of particular interest to students interested in world history, fintech, and financial innovation in general.

Instructor and Contact Information

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| **William Huggins** |
| Instructor |
| hugginsw@mcmaster.ca  |
| Office: RJC XXX |
| Office Hours: after class |
| Tel: (647) 289-9240 |
| Class Location: TBA |

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| --- |
| **Student TA** |
| TA |
| TAsMACID@mcmaster.ca |
| Office: DSB 218 |
| Office Hours: Mon 1-4pm |
| Tel: (905) 525-9140 x27438 |
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**Course website:** Avenue to Learn

Course Elements

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| Credit Value: | 3 | Leadership: | No | IT skills: | No | Global view: | Yes |
| Avenue: | Yes | Ethics: | Yes | Numeracy: | No | Written skills: | Yes |
| Participation: | Yes | Innovation: | Yes | Group work: | Yes | Oral skills: | No |
| Evidence-based: | Yes | Experiential: | Yes | Final Exam: | Yes | Guest speaker(s): | No |

Course Description

This course provides an introduction to one of humanity’s “killer apps” – financial intermediation. Be it a bank, pension plan, insurance company, or investment fund, these organizations are all means by which the world’s savings are used to fund the world’s investments. Each of the tools and organizations studied were invented to overcome the challenges of intermediation. Studying them in historical context tells us about how cultural, geographic, and demographic constraints or endowments have affected their current design and what they might look like in the future.

In each session, a new financial “technology” will be introduced and we will spend some time considering the history its related institutions, how they have changed over time, and what their current incarnations look like today. In doing do, students will be required to think about how design choices impact the stakeholders of various institutions, the path dependent nature of today’s structures, and how these organizations and tools can to be adapted to better suit society’s needs in the future.

Learning Outcomes

Upon successful completion of this course, students will be able to complete the following tasks:

* Explain the core functions of financial institutions in plain language
* Understand variations in institutional design with reference to local challenges and cultures
* Identify the key roles and processes required to complete those functions
* Analyze the priorities and concerns of various stakeholder groups
* Evaluate how existing institutions and their processes meet the needs of their stakeholders
* Synthesize best practices to improve processes and organizational design at financial firms

Course Materials and Readings

**REQUIRED:**

1. “Money Changes Everything: How Finance Made Civilization Possible”, William Goetzmann (2016) Princeton University Press. ISBN: 978-0691143781
2. HBS Case pack: https://hbsp.harvard.edu/import/780281

Evaluation

Learning in this course results primarily from the lectures, related readings, and researching your cases, writing assignments, and group project. *Your final grade will be calculated as follows:*

**Components and Weights**

|  |  |  |
| --- | --- | --- |
| **Case Studies** | 3 cases (group or solo), 10% each | 30% |
| **Group Project** |  | 30% |
| **Writing Assignments** | 2 individual “take home” exams, 20% each | 40% |
| **Total** |  | **100%** |

**Asynchronous Content**

*To facilitate on-line learning, weekly video series are recorded to support this course. You should watch each week’s videos on your own time BEFORE our synchronous sessions, read the class notes in detail, and explore some of the related links provided in the slides.*

**Synchronous Content**

*Each week the class will “meet” using Zoom for (roughly) an hour to discuss philosophical issues, innovations, and case studies related to that week’s primary topic. On weeks when a case study report is due, we will discuss it in detail. Office hours will also be held over Zoom at a time TBA*

**Grade Conversion**

At the end of the course your overall percentage grade will be converted to your letter grade in accordance with the following conversion scheme:

|  |  |  |
| --- | --- | --- |
| Letter Grade | Percent | Points |
| A+ | 90-100 | 12 |
| A | 85-89 | 11 |
| A- | 80-84 | 10 |
| B+ | 75-79 | 9 |
| B | 70-74 | 8 |
| B- | 60-69 | 7 |
| F | 00-59 | 0 |

**Case Studies (3 x 10% = 30%)**

*All case studies must be purchased through HBS at the link provided above (roughly $15). Final reports are to be submitted to electronic drop boxes set up on Avenue (only one submission per group is required) by 11:59pm EST on the dates listed below. Because the cases will be discussed in class the next day, late submissions cannot be accepted.* ***You should make every attempt to form a group within the first two weeks of class so you can begin working together by mid-January.***

**Group Project (30%)**

This project requires collaborative effort with your selected group to apply the lessons from class to complete a detailed analysis of one of the types of institutions discussed in the course. Your report should identify the major players in Canada and how they are carrying out their allocation objectives to address the objectives and concerns of their major stakeholder groups. Most importantly, your report should address modern challenges and opportunities for these organizations, particularly related to how improvements in technology are affecting their markets, business models, and stakeholder relationships. Your final report should be approximately 3000-4000 words excluding figures, sources, and appendices. More details will be released via Avenue to Learn in the first week of the second half of the course.

**Writing Assignments (2 x 20% = 40%)**

These individual assignments will cover material from the text book, readings, lectures and class discussion and are in effect, **open-book take-home tests**. Each will address the content covered in the course before their due dates. The final writing assignment is NOT cumulative. Both may require students to conduct (limited) external research to support their answers. Submissions have no minimum length but should be less than 2000 words each.

***Please Note:***

1. There will be NO make-up for any missed assessment activity and NO extra credit work will be offered under any circumstance.
2. Marks for all pre-final exam evaluation activities will be posted on Avenue.
3. Your final grade should come through official channels. Hence, marks for final exam will not be posted on Avenue.

Communication and Feedback

Students that are uncomfortable in directly approaching an instructor regarding a course concern may send a confidential and anonymous email to the respective Area Chair or Associate Dean:

http://mbastudent.degroote.mcmaster.ca/contact/anonymous/

Students who wish to correspond with instructors or TAs directly via email must send messages that originate from their official McMaster University email account. This protects the confidentiality and sensitivity of information as well as confirms the identity of the student. Emails regarding course issues should NOT be sent to the Administrative Assistant.

Academic Dishonesty

You are expected to exhibit honesty and use ethical behaviour in all aspects of the learning process. Academic credentials you earn are rooted in principles of honesty and academic integrity.

Academic dishonesty is to knowingly act or fail to act in a way that results or could result in unearned academic credit or advantage. This behaviour can result in serious consequences, e.g. the grade of zero on an assignment, loss of credit with a notation on the transcript (notation reads: “Grade of F assigned for academic dishonesty”), and/or suspension or expulsion from the university.

It is your responsibility to understand what constitutes academic dishonesty. For information on the various types of academic dishonesty please refer to the Academic Integrity Policy, located at:

www.mcmaster.ca/academicintegrity

The following illustrates only three forms of academic dishonesty:

1. Plagiarism, e.g. the submission of work that is not one’s own or for which other credit has been obtained.
2. Improper collaboration in group work.
3. Copying or using unauthorized aids in tests and examinations

Authenticity/Plagiarism Detection

***Some courses may*** use a web-based service (Turnitin.com) to reveal authenticity and ownership of student submitted work. For courses using such software, students will be expected to submit their work electronically either directly to Turnitin.com or via an online learning platform (e.g. A2L, etc.) using plagiarism detection (a service supported by Turnitin.com) so it can be checked for academic dishonesty.

Students who do not wish their work to be submitted through the plagiarism detection software must inform the Instructor before the assignment is due. No penalty will be assigned to a student who does not submit work to the plagiarism detection software.

**All submitted work is subject to normal verification that standards of academic integrity have been upheld** (e.g., on-line search, other software, etc.). For more details about McMaster’s use of Turnitin.com please go to www.mcmaster.ca/academicintegrity.

Courses with an On-Line Element

***Some courses may*** use on-line elements (e.g. e-mail, Avenue to Learn (A2L), LearnLink, web pages, capa, Moodle, ThinkingCap, etc.). Students should be aware that, when they access the electronic components of a course using these elements, private information such as first and last names, user names for the McMaster e-mail accounts, and program affiliation may become apparent to all other students in the same course.

The available information is dependent on the technology used. Continuation in a course that uses on-line elements will be deemed consent to this disclosure. If you have any questions or concerns about such disclosure, please discuss this with the course instructor.

Conduct Expectations

As a McMaster student, you have the right to experience, and the responsibility to demonstrate, respectful and dignified interactions within all of our living, learning and working communities. These expectations are described in the *Code of Student Rights & Responsibilities* (the “Code”). All students share the responsibility of maintaining a positive environment for the academic and personal growth of all McMaster community members, **whether in person or online**.

It is essential that students be mindful of their interactions online, as the Code remains in effect in virtual learning environments. The Code applies to any interactions that adversely affect, disrupt, or interfere with reasonable participation in University activities. Student disruptions or behaviours that interfere with university functions on online platforms (e.g. use of Avenue 2 Learn, WebEx or Zoom for delivery), will be taken very seriously and will be investigated. Outcomes may include restriction or removal of the involved students’ access to these platforms.

Missed Academic Work

***Missed Mid-Term Examinations / Tests / Class Participation***

Where students miss a regularly scheduled mid-term or class participation for legitimate reasons as determined by the Student Experience – Academic (MBA) office, the weight for that test/participation will be distributed across other evaluative components of the course at the discretion of the instructor.  Documentation explaining such an absence must be provided to the Student Experience – Academic (MBA) office within five (5) working days upon returning to school.

To document absences for health related reasons, please provide to Student Experience – Academic (MBA) office the Petition for Relief for MBA Missed Term Work and the McMaster University Student Health Certificate which can be found on the DeGroote website at http://mbastudent.degroote.mcmaster.ca/forms-and-applications/. Please do not use the online McMaster Student Absence Form as this is for Undergraduate students only. University policy states that a student may submit a maximum of three (3) medical certificates per year after which the student must meet with the Director of the program.

To document absences for reasons other than health related, please provide Student Experience – Academic (MBA) office the Petition for Relief for MBA Missed Term Work and documentation supporting the reason for the absence.

Students unable to write a mid-term at the posted exam time due to the following reasons: religious; work-related (for part-time students only); representing university at an academic or varsity athletic event; conflicts between two overlapping scheduled mid-term exams; or other extenuating circumstances, have the option of applying for special exam arrangements. Such requests must be made to the Student Experience – Academic (MBA) office at least ten (10) working days before the scheduled exam along with acceptable documentation.  Instructors cannot themselves allow students to unofficially write make-up exams/tests.  Adjudication of the request must be handled by Student Experience – Academic (MBA).

If a mid-term exam is missed without a valid reason, students will receive a grade of zero (0) for that component.

***Missed Final Examinations***

A student who misses a final examination without good reason will receive a mark of 0 on the examination.

All applications for deferred and special examination arrangements must be made to the Student Experience – Academic (MBA) office. Failure to meet the stated deadlines may result in the denial of these arrangements. Deferred examination privileges, if granted, must be satisfied during the examination period at the end of the following term. There will be one common sitting for all deferred exams.

Failure to write an approved deferred examination at the pre-scheduled time will result in a failure for that examination, except in the case of exceptional circumstances where documentation has been provided and approved. Upon approval, no credit will be given for the course, and the notation N.C. (no credit) will be placed on the student’s transcript. Students receiving no credit for a required course must repeat the course. Optional or elective courses for which no credit is given may be repeated or replaced with another course of equal credit value.

Requests for a second deferral or rescheduling of a deferred examination will not be considered.

Any student who is unable to write a final examination because of illness is required to submit the Application for Deferred MBA Final Examination and a statement from a doctor certifying illness on the date of the examination. The Application for Deferred MBA Final Examination and the McMaster University Student Health Certificate can be found on the DeGroote website at http://mbastudent.degroote.mcmaster.ca/forms-and-applications/ Please do not use the online McMaster Student Absence Form as this is for Undergraduate students only. Students who write examinations while ill will not be given special consideration after the fact.

In such cases, the request for a deferred examination privilege must be made in writing to the Student Experience – Academic (MBA) office within five business days of the missed examination.

Special examination arrangements may be made for students unable to write at the posted exam time due to compelling reasons (for example religious, or for part-time students only, work-related reasons):

* Students who have religious obligations which make it impossible to write examinations at the times posted are required to produce a letter from their religious leader stating that they are unable to be present owing to a religious obligation.
* Part-time students who have business commitments which make it impossible to write examinations at the times posted are required to produce a letter on company letterhead from the student’s immediate supervisor stating that they are unable to be present owing to a specific job commitment.

In such cases, applications must be made in writing to the Student Experience – Academic (MBA) office at least ten business days before the scheduled examination date and acceptable documentation must be supplied.

If a student is representing the University at an academic or athletic event and is available at an overlapping scheduled time of the test/examination, the student may write the test/examination at an approved location with an approved invigilator, as determined by the Student Experience – Academic (MBA) office.

In such cases, the request for a deferred examination privilege must be made in writing to the Student Experience – Academic (MBA) office within ten business days of the end of the examination period.

Note: A fee of $50 will be charged for a deferred exam written on campus and a fee of $100 for deferred exams written elsewhere. In cases where the student’s standing is in doubt, the Graduate Admissions and Study Committee may require that the student with one or more deferred examination privileges refrain from re-registering until the examination(s) have been cleared.

Academic Accommodation of students with disabilities

Student Accessibility Services (SAS) offers various support services for students with disabilities. Students are required to inform SAS of accommodation needs for course work at the outset of term. Students must forward a copy of such SAS accommodation to the instructor normally, within the first three (3) weeks of classes by setting up an appointment with the instructor. If a student with a disability chooses NOT to take advantage of an SAS accommodation and chooses to sit for a regular exam, a petition for relief may not be filed after the examination is complete. The SAS website is:

http://sas.mcmaster.ca

Religious, Indigenous or Spiritual Observances (RISO)

Students requiring academic accommodation based on religious, indigenous or spiritual observances should follow the procedures set out in the RISO policy. Students should submit their request to their Faculty Office ***normally within 10 working days*** of the beginning of term in which they anticipate a need for accommodation or to the Registrar's Office prior to their examinations. Students should also contact their instructors as soon as possible to make alternative arrangements for classes, assignments, and tests.

Copyright and Recording

Students are advised that lectures, demonstrations, performances, and any other course material provided by an instructor include copyright protected works. The Copyright Act and copyright law protect every original literary, dramatic, musical and artistic work, **including lectures** by University instructors. The recording of lectures, tutorials, or other methods of instruction may occur during a course. Recording may be done by either the instructor for the purpose of authorized distribution, or by a student for the purpose of personal study. Students should be aware that their voice and/or image may be recorded by others during the class. Speak with the instructor if this is a concern.

Potential Modification to the Course

The instructor and university reserve the right to modify elements of the course during the term. The university may change the dates and deadlines for any or all courses in extreme circumstances. If either type of modification becomes necessary, reasonable notice and communication with the students will be given with explanation and the opportunity to comment on changes. It is the responsibility of the student to check their McMaster email and course websites weekly during the term and to note any changes.

Acknowledgement of Course Policies

Your registration and continuous participation (e.g. on A2L, in the classroom, etc.) to the various learning activities of MBA F718 will be considered to be an implicit acknowledgement of the course policies outlined above, or of any other that may be announced during lecture and/or on A2L. **It is your responsibility to read this course outline, to familiarize yourself with the course policies and to act accordingly.**

Lack of awareness of the course policies **cannot be invoked** at any point during this course for failure to meet them. It is your responsibility to ask for clarification on any policies that you do not understand.

Course Schedule

MBA F718

The History of Finance

Winter 2021 Course Schedule

|  |  |  |
| --- | --- | --- |
| Week | Topics | Deliverables |
| 1 | Course Introduction: why study history, institutions, institutional design |  |
| 2 | Payment Systems: gifts, barter, ledgers, currency, fiat currency, digital money |  |
| 3 | Debt: risks and safeguards, debt as money, bonds, peer-to-peer lending |  |
| 4 | Banking: risks, governance, history, credit unions, offshore, microfinance | Case #1 (10%) |
| 5 | Central Banking: liquidity, monetary policy, independence, network centrals |  |
| 6 | Companies pt 1: financing, monitoring, bankruptcy, family firms  | Case #2 (10%) |
| 7 | Companies pt 2: public equity, operations at distance, governance, SOEs |  |
| 8 | Stock Markets: economics of markets, margin trading, bubbles, regulation  | Midterm (20%) |
| 9 | Derivatives: conditional payoffs, forwards, futures, options, quant finance |  |
| 10 | Insurance: estimating risk, multi-line, actuarial science, specialty lines, failure | Case #3 (10%) |
| 11 | Trusts: endowments, sovereign wealth funds, mutual funds, hedge funds  |  |
| 12 | Pensions: annuities, sponsors, funding, design principles, the Canada model |  |
| 13 | The State: political economy, market shaping, welfare state, demographics | Group Project (30%) |

Reading List (by Topic)

***The book is best read in full, in order but in this course we explore the material by “tool” rather than chronologically. The page by page breakdown facilitates focused reading but the narrative is weakened by this approach.***

***You should try to read the entire book, in order as written, within the first 6 weeks of the course.***

**INTRODUCTION:** 1-14, 137-141, 194-202, 398-404, 519-521

**PAYMENTS SYSTEMS:** 15-30, 92-102, 127-136, 143-151, 180-189, 191-193

**DEBT:** 31-40, 46-53, 57-58, 65-68, 161-166, 174-179, 227-237, 249-254, 417-422, 448-451

**BANKING:** 40-45, 81-87, 110-118, 207-220, 289-293

**CENTRAL BANKING:** 42-43, 103-109, 152-161, 189-191, 351-354, 386-388, 460-463, 465-466

**COMPANIES:** 53-55, 59-64, 87-91, 119-127, 238-248, 289-319, 430-434, 470-474

**STOCK MARKETS:** 284-288, 316-381, 405-415, 438-446, 467-470, 482-492

**DERIVATIVES:** 68-72, 185-186, 276-288

**INSURANCE:** 77-81, 363-375

**INVESTMENT TRUSTS:** 382-386, 416-417, 463-465, 477-482, 499-516

**PENSIONS:** 55-57, 254-275, 493-499, 516-518

**THE STATE:** 31-34, 73-76,103-202, 221-237, 423-442, 454-460