

December, 2011



Rotman

Course Outline

RSM 2320HS The Canadian and American Financial Systems - Comparisons and Contrasts

Spring 2012

Course Meets Tuesdays, 4.15 – 6:15 p.m., Room 151

[Jan. 17 – Apr. 17]

Instructors: Professors Chris Kobrak, PhD, MBA, CPA and Joe Martin, F.C.M.C., LL.D. [Honoris Causa]

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Office Hours: by appointment

Course Goals

- 1) To give students a better general appreciation of how and why financial systems evolve.
- 2) To give students a better appreciation of the cross-border flows of ideas and money that shape a financial system.
- 3) To help students better understand the ways in which a financial system is tied to history and society.
- 4) To provide students with the historical background needed to make an educated assessment of how the Canadian and American financial systems will evolve.
- 5) To give students a better insight into current issues about emerging financial systems and currency zones.

Course Scope and Mission

The main objective of the course is to assist the student in understanding how public policy shapes financial systems and to understand how two North American systems, both rooted in British tradition, have evolved in such a different fashion.

In order to accomplish this Mission, key turning points in each country's financial system will be examined in order to compare, contrast and to draw conclusions about the reasons why the systems differ.

The student will be expected to understand the advantages and disadvantages of the two systems and how history has affected the appropriateness of each country's financial policies.

In addition the course will facilitate understanding of how the 19th century development of the North American financial systems can provide useful guidance to both emerging markets and to Europe with their current financial issues.

This course is divided into two parts. The first is a narrative dealing with the historical development of the Canadian and American systems. It will begin the basic elements of each country political culture and how that culture affected economic institutions. Through lectures and case study discussions, students will be exposed to the key events and actors in both countries banking system, capital markets, and insurance services. The second part will deal with specific aspects of each country's financial system. These topics include corporate governance, venture capital, pensions, and private equity.

Students will be assigned groups early in the course. Each group will be expected to report on an assigned topic involving the evolution of a specific aspect of financial sector. The assignment will require both a written and oral presentation.

The course will be open to both two- and three-year MBA students

Readings, Cases

Strong Managers, Weak Owners: The Political Roots of American Corporate Finance by Mark Roe (Princeton: Princeton University Press, 1994)

The Financial System of Canada: its Growth and Development by E.P. Neufeld (Macmillan of Canada, 1972)

There will be in addition a number of Case Studies and Readings – some of these will be assembled in a course package and some will be available electronically.

Evaluation and Grades

Grading for the course will be individual and team-based and will be as follows:

<u>Item</u>	<u>Percentage</u>
Class Participation:	20%
Team Assignment:	40%
Final Exam – open book – take home	40%

Preparation and Class Participation

Advance preparation is essential in order to communicate effectively and contribute to the class. The quality of your participation accounts for 20% of your final grade. *Quality* means that you are advancing the discussion collectively and cooperatively and that your participation reflects that you are *listening* to your colleagues and responding to what they are saying.

The rationale for rewarding quality participation is as follows: Designed to simulate real practice, the job of an executive is to persuade. That talent frequently requires developing listening, oral communication and leadership skills. An effective participant:

- is a good listener;
- makes points relevant to the ongoing discussion;
- makes comments that add to our understanding of the readings or case;
- is willing to challenge ideas that are being expressed; and
- integrates material from past classes, other courses.

Second, **learning is not a spectator sport**, *i.e.* the more you involve yourself in class discussions, the more you learn and the better you become. In your evaluation of the course and the professor you will be asked to evaluate your contribution to the learning process.

Team Assignment

During the second week, students will be assigned to working groups of three to four. During sessions 10 through 1 each group will be expected to give an oral presentation (followed a week later by a written summary, ten pages) on some aspect of the financial system not covered in depth in the previous lectures and discussions. These topics include stock exchanges, corporate governance venture capital, private equity, and derivatives trading. A complete list will be furnished when groups are organized and topics assigned. The presentations will highlight the historical development of these parts of the financial system in Canada and the United States, comparing and contrasting the development, highlighting the interaction between the two countries, and relating these sectors to the overall themes of the course and other parts of the financial systems of both countries.

Final Exam

The final exam will occur during the regularly scheduled examination period at the end of term. The exam will be distributed on April 10. It will be open book and will reflect the material covered in the course. The exam must be returned electronically by 12 noon, April 17.

Instructors Bios

Christopher Kobrak is a Visiting Professor at the Rotman School of Management. He has been a professor of finance at ESCP Europe (Paris, France) for nearly 20 years. He is an International Fellow at the Centre for Corporate Reputation, Oxford University and serves on the editorial board of several journals. A CPA, he worked for ten years in the United States and abroad. He holds an MBA in Finance and Accounting, and PhD in Business History from Columbia University. He has published several books, including *Banking on Global Markets: Deutsche Bank and the United States, 1870 to the Present* and articles in *Business History*, *Business History Review*, *Enterprise and Society*, as well as other journals on a wide range of business and financial topics.

Joe Martin is Director of Canadian Business History. He designed, developed and delivered the Canadian Business History course and wrote *Relentless Change, A Case Book for the Study of Canadian Business History*. He joined the Faculty in 1995. Prior to that, he was a partner in Deloitte Consulting (formerly Touche Ross Management Consultants) for many years. While there he was managing partner of the Canadian practice for 12 years and Chair of the global practice for a decade. A graduate in history from the University of Manitoba and the Advanced Management Program of the Harvard Business School he has an Honorary Doctorate from the University of Winnipeg. He is a past president of the Canadian Association of Management Consultants, a past president and fellow of the Institute of Certified Management Consultants of Ontario and President Emeritus of Canada's National History Society.

Jan. 17 SESSION 1 – Introduction and Overview of The Canadian and American Financial Systems - Comparisons and Contrasts

In addition to giving an overview of the course, including key historical events, people and attitudes, the session will explore a number of themes, viz.:

- the relationship between the federal government and the state/provincial governments in terms of regulation of the financial system,
- the break with the UK, one revolutionary and one evolutionary, and the influence that had on the financial system,
- important issues unique to each country that affected the financial system, e.g. the relationship between Lower Canada [Quebec] and the other provinces in Canada and slavery and the Civil War in the United States,
- the Chandlerian Revolution in the US and Canada,
- the impact of political attitudes, either populism, and progressivism and/or Family Compact/Chateau Clique policies on the financial system,
- attitudes about the appropriate role of government versus the private sector in terms of financial system,
- the impact of financial crises on attitudes and policies.

Jan. 24 SESSION 2 - Introduction and Overview of the Canadian and American Financial Systems - Comparisons and Contrasts - Continued

Reading:

“An Economic Interpretation of the American Revolution” by Marc Egnal and Joseph A. Ernst portal

“An Overview of the Canadian Financial System” by Joe Martin portal.

“Slavery: The Progressive Institution” by James Maxwell and Peter Temin in pp. 739-783 *Journal of Economic History*, - course package

Jan. 31 SESSION 3 - Foreign Influences

This Session will deal not only with Portfolio Investment and Foreign Direct Investment, (Inward and Outward) but also with their regulatory and reputational influences and with the effect of international conflicts.

Reading:

“Banking on Reputation” by Christopher Kobrak Draft Case SBS, Oxford University - portal

« A History of the Canadian Dollar » by James Powell Bank of Canada, - portal

Feb. 7 SESSION 4 - Evolution of the Banking System

This Session will deal with constitutional responsibility for banking, the role and place of a Central Bank, unit banking versus branch banking, and gradual [decennial review] versus dramatic [periodic review after a crisis] change within the system.

Reading:

“The Founding Era, 1774-1791” by Robert A. McGuire in *Government and the American Economy* – BIC

"Reversing Financial Reversals: Government and the Financial System since 1789," by Richard Sylla pp. 115-147 in *Government and the American Economy*, eds Price, Fishback, et al (Chicago, University of Chicago Press, 2007) - BIC

“The Canadian Banking System”, by E.P. Neufeld, pp 71-89 and 134-139, in *The Financial System of Canada: its Growth and Development*, Macmillan of Canada, 1972 - course package

“Envisioning ‘Free Banking’ in Antebellum New York” – HBS – 9-708-038 –course package

“The Campaign for Bank Insurance in Antebellum New York” – HBS – 9-708-037

“The Creation of the Bank of Canada” by Katherine Macklem – portal

“The Impact of the ‘Little Bang’ of 1987 on Canadian Banking” by Asha Srikantiah portal

NOTE – For the two HBS Case Studies ignore the financials and focus on the narrative – this will reduce your reading to 18 pages.

Feb. 14 SESSION 5 - Evolution of the Banking System continued

Reading:

See above

Feb. 21 SESSION 6 – Financial System and Housing – 1920-2000

This Session will examine the important role that the financial system has played in housing including the social role of home ownership, government programs to assist home ownership and private sector responses.

Reading:

“Financing American Housing Construction in the Aftermath of War,” – HBS – 9-708-032 – course package

“Fannie Mae: Public or Private?”- HBS – 9-709-025 – course package

Feb. 28 SESSION 7 – Managing Crisis – 1873-2003

In the **last 180 years** there have been a variety of financial crises (e.g., 1837, 1873, 1895, 1907, 1929-31) North America. This Session will examine frequency and causes as well as the responses both short and long term.

Reading:

“The Canadian Stock Market Crashes of 1929-32,” Darren Karn on the portal

“The Pecora Hearings,” – HBS – 9-711-046 course package

“The Federal Reserve and the Banking Crisis of 1931” HBS 9-709-040 course package

“The LDC Debt Crisis and its impact on the Royal Bank of Canada,” Sabrina Sdao on the portal

Mar. 6 Session 8 Life and Personal and Casualty Insurance

This section, in addition to comparing and contrasting the evolution of the sector in both countries will also examine the social, financial and legal issues posed by insurance.

Reading:

“Canadian Insurance,” Darrach and Kipping portal

“The Armstrong Investigation,” – HBS – 9-708-034 – course package

Mar. 13 SESSION 9 – Pensions and Mutual Funds - Ambachtsheer

This Session will examine the evolution of pensions and mutual funds in the two countries and examine both the both of empowering the small investor and wealth management through diversification.

Reading:

Strong Managers, Weak Owners, [pp. 3-135], by Mark D. Roe – BIC

“Pensions and Mutual Funds” by E.P. Neufeld, pp 354-379 and 442-457, in *The Financial System of Canada: its Growth and Development*, Macmillan of Canada, 1972 – course package

“AGF Management Limited, a Case Study”, by Joe Martin, 2001, in *Strategic Management Competitiveness and Globalization – Cases*. 2nd Canadian edition , edited by Hitt, Ireland, Hoskisson, Sheppard and Rowe – portal

Mar. 20 SESSION 10 – The Development of Stock Exchanges

Student Presentations

Mar. 27 SESSION 11 – Issues involved in Corporate Governance and Private Equity

Student Presentations

Apr. 3 SECTION 12 – Issues involved in Venture Capital and Derivatives Trading

Student Presentations

Apr. 10 SECTION 13 - Conclusion: The Impact of the Financial System on Political Social and Economic Development

In addition to recapping the Course this Session will explore how financial systems effect welfare and income distribution and will look at the 2008 Credit Crisis, ABCP and the 2010/2011 Sovereign Debt Crises and Beyond.

Apr. 17 – Final Exam due

Missed Assignments/Examinations

Students may miss an assignment or exam due to illness, domestic affliction, or in the case of part time students, work commitments, without academic penalty providing the appropriate documentation is received and approved in a timely manner.

In such cases students must notify the MBA Program Services Office on the date of the missed assignment or examination and a medical certificate, employer's letter or other supporting evidence must be submitted to the Director, MBA Program Services within 48 hours of the due date of the assignment or the exam date.

A resolution will be determined by the instructor and may take the form of a make-up exam, rewriting the exam at the next offering of the course or a revised grade calculation. The decision as to how to handle the missed assignment or exam is at the instructor's discretion. If a student misses an assignment or final examination for any other reason, a resolution will be determined at the instructor's discretion and may include an academic penalty. Students who do not notify the School of a missed assignment or exam will be given a grade of FZ (failing grade) for the assignment or exam.

Course Work & Academic Honesty

Submission of Assignments – Students are required to use the MBA Assignment Cover Sheet Template (see the Portal) for all submitted work which will be reviewed by the Professor. In the case of group assignments, all group members must sign the Assignment Cover Sheet. Late submissions of any assignment will be considered; however, a resolution will be determined at the instructor's discretion and may include an academic penalty.

Academic Honesty - The University's Code of Behaviour on Academic Matters ("Code") applies to all Rotman students. The Code prohibits all forms of academic dishonesty including, but not limited to, cheating, plagiarism, and the use of unauthorized aids. Students violating the Code may be subject to penalties up to and including suspension or expulsion from the University. A copy of the Code may be found at: <http://www.utoronto.ca/govcncl/pap/policies/behaveac.html>

The Rotman Code of Integrity

Students are expected to conduct themselves with the utmost integrity during their time at Rotman and, without limiting the foregoing, will:

- Submit only original work, giving credit to others where appropriate;
- Neither give nor receive unauthorized aid in examinations or on assignments;
- Contribute substantially and proportionally to each group assignment;
- Ensure enough familiarity with the entire contents of group assignments so as to be able to sign off on them as original work;
- Accept and acknowledge that assignments found to be plagiarized in any way will be subject to sanctions under the University's Code of Behaviour on Academic Matters;

- Represent myself honestly to members of the Rotman community and to outsiders;
and
- Represent Rotman appropriately to the outside world.

Team Behaviours & Protocols

All students are expected to treat teamwork as though they would in a business setting, ensuring professional behaviour at all times. Professional behaviour in group settings includes (but is not limited to) the following:

- Ensuring all team members voice their opinions, thoughts, and concerns;
- Taking personal responsibility to voice thoughts to benefit the team's learning;
- Contributing to the learning of the team by giving equal time and work quality as others in the group;
- Committing to a standard of work agreed upon by the group;
- Participating in team projects at a level agreed upon by the entire team.