



ECON/IB 365 Finance and Banking in the Countries of Eastern Europe (4 Credits)

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Course Description

This course analyzes the specifics of finance and bank management in transition economies with particular emphasis on the structure and operation of banking systems and capital markets within the countries of Eastern Europe. This course covers reforms and control in banking and the influence of foreign investments and international monetary institutions, such as the International Monetary Fund, on transition economies. Specific finance and banking policies of post-socialist countries at the time of international financial crises are analyzed.

Course Format

This course consists of discussions, case studies, lectures, and student presentations.

Attendance

Attendance and class participation directly affect students' grade. Students are allowed two unexcused absences during the semester.

Examinations

There are two standard examinations throughout the semester. One will be scheduled near the midterm period, and the other as the final examination.

Topical Course Outline, Tentative Class Schedule

Week 1 *Course Introduction and Overview*

Week 2 *Formation and Reforms in the Banking System in Transitional Economies at the Time of Globalization*

Formation and reforms in the banking system in the countries of Eastern Europe;

The influence of foreign capital on the banking system of developing countries;

Bank capital and stability at the time of a financial and economic crisis;

How many banks are needed in a modern economic environment?

Correlation of national banks with international financial organizations. Entering international markets.



Main success factors of the credit system of post-socialist countries.

Discussion Topics: Stability of the banking system as one of the main factors to end a crisis.

Foreign capital entering the banking and financial system of Eastern European countries: the result and consequences.

Case Study: Dollarization of the economy and its consequences in developing countries. Analysis of general and financial dollarization of the economy. Developing ways to lower this factor.

Weeks 3 *Reengineering of Credit Institutions at the Time of a Crisis*

Banks and the financial and credit system of countries in transition: conditions under crisis and the increase in the level of competition; development trends and control;

Main improvement paths: strategic and budget planning; control of the quality, liquidity and the personnel; the development of services; establishment of bookkeeping, control and audit; the formation of internal rules;

New informational and banking technologies.

Discussion Topics: Position, necessity and effectiveness of virtual and self-serving banks.

The importance of innovation in banking as a factor of survival in a crisis.

Case Study: Control of changes in banking.

Weeks 4 *“Liquidity Trap “and the Modern Politics of the International Monetary Fund (IMF) Towards the Countries of Eastern Europe*

Theoretical description of the “liquidity trap”; factors that lead to its creation; challenges and opportunities of a transitional period;

“Save and maintain” actions recommended by IMF;

Shock therapy and its ineffectiveness in modern world: unaccomplished transitions, increase of unemployment and inequality, inflation and privatization.

Discussion Topics: What steps were necessary at the time of stability in the countries of Eastern Europe?

Selling “national security”?

Democratic responsibility and politic and social risks;

Consequences of IMF’s increasing role as a “last resort creditor”;

Reforms in the IMF and the global financial system.

Case Study: Reforms in the World Trade Organization and the development of a balanced order in international trade.

Week 5 *The Role of Central Banks in the Organization of the Banking System and Capital Market; Credit Regulations in the Countries of Eastern Europe*

The role of central banks in the economy of countries in transition;

Standards and practice of banking regulations and oversight in the countries of Eastern Europe and Ukraine;

Norms and economic foundations of modern banking oversight;



Methods of influencing banks and financial and credit institutions;
Position of the cash and credit regulations in the state economic policy in countries of Eastern Europe;
Effectiveness of cash and credit regulations in transitional economies.

Discussion Topics: Theoretical foundations of the mechanism of cash transmission. Comparative analysis of the effectiveness of monetary and fiscal policies.

Case Study: Analysis of the influence of instruments of the capital and credit policy on the cash availability in transitional economies.

Week 6 *Capital Policy in the Countries of Eastern Europe*

Principles of the capital balance formation and its structure;
Main instruments of the capital policy implementation in the countries of Eastern Europe;
Choosing a strategy for a capital policy;
Factors that influence a country's capital balance;
Policy of the currency exchange rate and the stability of capital balance;
The specifics of the gold reserve control in the countries of Eastern Europe.

Discussion Topics: The main methods of currency exchange rate forecasting in transitional systems.

Case Study: National financial safety: calculations and evaluation of main factors.

Analysis of the influence of the cash balance and increase in investments on the national currency exchange rate.

Week 7 *Payment System in the Countries of Eastern Europe*

Payment system components and their functions;
The role of commercial banks and the central bank in the payment systems in the countries of Eastern Europe;
Necessary conditions for the payment system functioning;
The role of international payment and electronic systems in transitional economies (SWIFT, TARGET, TOPAZ, Europay);
Payment systems on the Internet: legislative regulations of electronic commerce in the countries of Eastern Europe.

Discussion Topics: The main characteristics of counterfeit payment cards and methods of their detection.

General requirements for the inter-bank payment system functioning.

Case Study: The analysis of factors that influence the increasing use of electronic payment cards.
Development of a strategy for pushing payment cards to the market.

Week 8 *Modern Operation of Banks in the Countries of Eastern Europe*

Classic and non-traditional banking products and operations;
Experience of the countries of Eastern Europe and Ukraine in the control of banks' operations;



Traditional organizational structure of bank governance;

Securing the financial stability of a bank.

Discussion Topics: Specifics of factoring, leasing and trust operations in the countries with transitional economies.

Case Study: Evaluation of the interest on gold investments and forecasting their future price.

Week 9 *Common Principles of Bank Resources Control in the Countries of Eastern Europe*

Bank resources: their specifics and formation in transitional economies;

Development of business and private capital;

Strategies for capital attraction;

Developing goals for the bank resources governance;

Analysis and development of portfolio concepts;

Development of a resources, credit, and marketing strategy.

Discussion Topics: Methods of a bank portfolio control.

Profitability and liquidity: are they alternative or interconnected concepts in the banking system of transitional economies?

Case Study: Formation of general and alternative models of bank resources governance.

Analysis of bank resources and bank liquidity.

Week 10 *Control over Profitability and Risks of Banks in Countries of Eastern Europe*

Threats to financial and credit systems of post-Soviet countries;

External and internal, financial and non-financial risks;

Evaluation methods of bank's profitability and its regulation;

Control over creditability of bank products.

Discussion Topics: Strategic and current control of bank operations: its necessity and limits in transitional economies. Internal control as an instrument of bank management. Control over bank security.

Case Study: Threat analysis of a bank's credit activity.

Week 11 Midterm exam

Week 12 *Mortgage Markets in Transitional Economies*

Conditions for mortgage financing creation in the countries of Eastern Europe and Ukraine;

Foundations for real estate financial market organization in transitional economies; mortgage institutions;

Legislative problems for government control of the mortgage market;

Risks of mortgage crediting and their specifics in Ukraine and countries of Eastern Europe;



One and two level models of secondary real estate market;

Experience of the countries of Eastern Europe in nongovernmental mortgage financing.

Discussion Topics: Macroeconomic consequences of mass subsidizing real estate purchase for the population.

Necessity of mortgage credit introduction and the instruments of the mortgage market.

Case Study: Calculating the cost of 1 sq. m of real estate if purchased under different mortgage conditions.

Week 13 *Control Practices of Bank Investments in the Countries in Eastern Europe*

Control over investment operations in transitional economies;

Investment credit banking: strategy for preparation and evaluation of an investing project;

Implementation of investment projects and budget control;

Monitoring and control over investment programs and projects.

Discussion Topics: Possibilities of the UNIDO method implementation within the investment analysis in transitional economies.

Investment attractiveness of the countries of Eastern Europe and Ukraine.

Development of investment projections in the developed and developing economies.

Case Study: Evaluation of return on investment credit.

Week 14 *Private Banking: Establishment and Development in the Countries of Eastern Europe*

Private capital on the developing markets;

Modern banking individual service: main services and specifics of competition;

Individual service in transitional economies;

Off-shore individual banking service.

Discussion Topics: What does a client expect from a bank? The quality of service and client-bank relations.

Increase of client service standards and increased competition in the countries of Eastern Europe.

Trusts, consulting services, taxation planning.

Case Study: Evaluation of tariff strategies. Price formation in private banking.

Week 15 *International Calculations and Currency Operations*

Currency control options: their causes and consequences;

Main forms of international payments used in the countries of Eastern Europe;

Organization of currency trade: direct dealing, broker market, and matching systems;

Discussion Topics: Necessity of futures market formation in the countries with currency limitations.

Main mechanisms of illegal “money-laundering” and methods of its prevention in the countries of Eastern Europe.



Case Study: Evaluation of effectiveness of main types of currency trade. Profit and loss calculations for cross-transactions.

Week 16 *Technical and Fundamental Analysis of Financial Markets of Developing Countries*

Theoretical basis of technical and fundamental analysis, and their comparison;

Flexibility and adaptation capabilities;

The Dow Theory. Volume and open interest.

Discussion Topics: Advantages and disadvantages of technical and fundamental methods of futures market analysis in developing countries. Methods of climax and tendency continuity.

Week 17 *Conclusions and Overview*

Week 18 *Final Exam*

Required Readings

Course pack and handouts provided.

The information contained in the course syllabus may be subject to change with reasonable advance notice, as deemed appropriate by the instructor.