

Topics in Bank Management

Course Syllabus

Instructor: Ronaldo CARPIO
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Course Website: <http://rencarpio.com/teaching/BankTopics>
Lecture Room & Time: 408 Boxue Bldg, Monday 13:30-15:00
Office Hours: Friday 15:00-16:00, or by appointment

Course Description: This course is an introduction to the modern theory of banking and financial intermediation. Despite their long history and importance, banks do not easily fit into the models that economists typically use. We will examine different modeling approaches, with an emphasis on models based on asymmetric information. We will also study theories of financial instability and regulatory response to instability.

After taking this course, the student will be familiar with the models underlying modern research in financial intermediation; we will also read some recent papers to give a sense of the current research frontier.

Tentatively, there will be around 12 weeks of lectures. We will cover Chapters 1-5 and 7-8 in the textbook for the first 9 weeks; then, we will cover the topics "Debt vs. Equity" and "Alternatives to Banks for Financial Intermediation" for 2 weeks. I will hand out the readings for these topics later in the course.

In the last week, students will give a short (25 minute) presentation on a current research paper. I will provide a list later.

For our second lecture, please read Ch. 1 and Ch. 2.1-2.4, 2.7 in the textbook.

The language of instruction for this course is English.

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Announcements, homeworks, and other course materials will be posted here.

Textbook: The primary textbook is *Microeconomics of Banking*, 2nd ed. (2008) by Xavier Freixas and Jean-Charles Rochet, published by MIT Press.

Two useful pre-crisis survey articles on the theory of financial intermediation are:

- Franklin Allen and Anthony M. Santomero (2001), "What do financial intermediaries do?", Journal of Banking and Finance 25, 271-294, <http://fic.wharton.upenn.edu/fic/papers/99/9930.pdf>
- Gary Gorton and Andrew Winton (2003), "Financial Intermediation" in G. Constantinides, M. Harris, and R. Stulz (eds.), Handbooks in the Economics of Finance, Volume 1A: Corporate Finance (also at <http://www.nber.org/papers/w8928>)

Grading: Course grades will be determined by class participation, written assignments, and a final exam.

Class Participation	30%
Written Assignments	30%
Final Exam	40%

Class Participation: Please read the assigned readings before class, and prepare *three* questions, together with your own preliminary answers. We will discuss these questions in class.

Written Assignments: There will be a few problem sets and an article review assignment. For the article review, I will provide a list of some recent and classic papers; you may select an article to review. You will write a summary of the paper, its theory and/or data sources, and recent updates in the literature (I will provide the exact format later).

Exams: The final exam will be a take-home exam.

Outline:

1. Introduction & Motivation (Ch. 1)
2. The Role of Financial Intermediaries (Ch. 2)
3. The Industrial Organization Approach to Banking (Ch. 3)
4. The Lender-Borrower Relationship (Ch. 4)
5. Equilibrium in the Credit Market and Its Macroeconomic Implications (Ch. 5)
6. Individual Bank Runs and Systemic Risk (Ch. 7)
7. Managing Risks in the Banking Firm (Ch. 8)
8. Debt vs. Equity: A Security Design View
9. Alternatives to Banks for Intermediation