

12F008

6 ECTS

Banking Theory II

Professor: Sergio Vicente

Professor's e-mail: svicenter@gmail.com

Introduction

This course is the sequel of Banking Theory I, taught by Professor Freixas in the Winter Term. The course complements Banking Theory addressing the topics of liquidity risk, credit risk, risk management, banking regulation, and the economics of bailouts. This is a rigorous theory course applying microeconomics techniques—mostly game theory and contract theory—to central aspects of banking.

Objectives

The objective of this course is:

- 1) Understanding the role of financial intermediaries in the economy.
- 2) Getting acquainted to central aspects of banking theory
- 3) Deepening the knowledge of banking institutions.
- 4) Understanding the fragility of the banking function.
- 5) Making sense of banking regulation.

Required Background Knowledge

The course draws on game theory and contract theory concepts. Moreover, the course requires some basic knowledge of finance. Although not a formal prerequisite, taking (and passing) Banking Theory I is a necessary and sufficient condition to be ready to start this course.

Learning Outcomes

The course deals with classical treatments of banking theory and progresses towards recent developments. The first part of the course is mostly based on standard treatments of topics that are central to understanding the theory of banking. The second part deals with the current research frontier in some (selected) aspects of banking theory. At the end of the course the student should be familiar with the main tools of banking modelling and the main insights in banking theory.

Methodology

The course consists of lectures, problem sets, and a student presentation of a recent banking theory paper.

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Evaluation

Final Exam: 50%.
 Presentation: 25%.
 Problem Sets: 15%.
 Class participation: 10%.

Course contents

The course at a glance:

Topic	Title
1	Liquidity risk
2	Credit risk
3	Managing risk in the banking firm
4	Regulation of banks
5	The economics of bailouts

Main bibliography

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1. Liquidity risk

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2. Credit risk

[FR], pages 266-73

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3. Managing risk in the banking firm

[FR], pages 273-84

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4. Regulation of banks

[FR] pages 305-340

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