

Course Syllabus

Banking and Securitization

University of Bonn

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Time: Tuesday 10-12 & Wednesday 16-18

Location: Juridicum, Hörsaal F

Level: Master Economics, PhD

Recommended Requirements: Microeconomic Theory, Bank Management, Corporate Finance

Course Description

This course builds on basic financial theory and the principles courses in economics. It addresses topics that are important for understanding the role of financial institutions for the real economy in a rapidly changing international and technological environment. Upon successful completion of the course, students should be able to understand the basic characteristics of financial intermediation; explain why banks are (or used to be) unique economic institutions, and therefore merit special attention from policymakers; to understand the analytical foundations underlying financial regulation, supervision, and monetary policy transmission via (non-)banks; and be able to use them to analyze important developments and challenges to the financial system, including systemic risks, shadow banking, and climate change.

The focus is on financial theory, including understanding and solving theoretical models. We will also relate to empirical studies when suitable. Toward the end of the semester, participants have the opportunity to present and discuss empirical papers and how they relate to the theory.

Grading

Exam

Basic Literature

The course actively uses journal articles. The focus is on understanding traditional as well as modern approaches to banking theory. We will also discuss some recent related empirical evidence. Additional reading of the following books can be helpful:

- Freixas, X. & Rochet, J.-C. (2008), *Microeconomics of Banking*, 2nd ed., Cambridge, MA: MIT Press
- Allen, F. & Gale, D. (2007), *Understanding Financial Crises*, New York, Oxford University Press
- Freixas, X., Laeven, L. & Peydro, J.L., (2015) *Systemic risk, crises and macroprudential policy*.

Structure of the Lecture

1 The Role of Banks

- Diamond, D. and P. H. Dybvig. "Bank Runs, Deposit Insurance, and Liquidity," *Journal of Political Economy*, 91 (1983), 401-419.
- Holmström, B. and J. Tirole. "Inside and outside liquidity," MIT press, (2011) Jan 7. (Chapter 1 & 2).
- Diamond, D. "Financial Intermediation and Delegated Monitoring," *Review of Economic Studies*, 51 (1984), 394-414.
- Holmstrom, B. and J. Tirole. "Financial Intermediation, Loanable Funds and the Real Sector," *Quarterly Journal of Economics*, 112 (1997), 663-691.

2 Bank Funding Structure

- Gorton, G., and G. Pennacchi. "Financial intermediaries and liquidity creation," *The Journal of Finance*, 45 (1990), 49-71.
- Brunnermeier, M. K. and M. Oehmke. "The maturity rat race," *The Journal of Finance*, 68 (2013), 483-521.

3 The Role of Debt as a Safe Asset

- Gorton, G. "The History and Economics of Safe Assets," *Annual Review of Economics*, 9 (2017), 547-586.
- Holmstrom, B. "Understanding the Role of Debt in the Financial System," *BIS Working Paper* 479 (2015).
- Dang, T. V. and Gorton, G. and Holmström, B. and Ordoñez, G. "Banks as Secret Keepers," *American Economics Review*, 107 (2017), 1005-1029.

4 Financial Frictions and the Real Economy

- Kiyotaki, N. and J. Moore. "Credit cycles." *Journal of Political Economy* 105 (1997), 211-248.

5 The Financial crisis 2007-08

- Brunnermeier, M. K. "Deciphering the Liquidity and Credit Crunch 2007-2008." *Journal of Economic Perspectives* 23 (2009), 77-100.

6 Fire Sales

- Brunnermeier, M. K. and L. H. Pedersen. "Market liquidity and funding liquidity," *Review of Financial Studies* 22 (2009), 2202-2238.
- Vuillemeier, G. "Mitigating Fire Sales with Contracts: Theory and Evidence" Working Paper (2019).

7 Climate Change & Green Finance

- Oehmke, M. and M. Opp. "A Theory of Socially Responsible Investment," Working Paper (2020).

8 Presentations of Empirical Papers

Some examples:

- Becker, B. and V. Ivashina. "Cyclicality of credit supply: Firm level evidence," *Journal of Monetary Economics* 62 (2014), 76-93.
- Huber, K. "Disentangling the effects of a banking crisis: Evidence from German firms and counties," *American Economic Review* 108 (2018), 868-898.
- Duquerroy, A., Matray, A., and F. Saidi. "Sticky Deposit Rates and Allocative Effects of Monetary Policy," Working Paper (2020).
- Buchak, G., Matvos, G., Piskorski, T., and A. Seru. "Beyond the Balance Sheet Model of Banking: Implications for Bank Regulation and Monetary Policy," Working Paper (2021).