

## **Banking and Financial Institutions (21909)**

- Degree/study: Banking and Financial Institutions (21909)
- Course: third/fourth year elective course for Bachelor's Degree: in Economics, in Business Management and Administration, in Business Sciences, and in International Business Economics
- Term: second
- Number of ECTS credits: 5
- Hours of student's dedication: 125
- Language of instruction: Course entirely taught in English
- Professor: José Luis Peydró

### 1. Presentation of the subject:

This course focuses on banks, both on the management and on the regulation/supervision of commercial banks and other depository institutions. We focus on what banks do, how they do it and why. Particular emphasis is given to banking regulation and supervision as well as credit risk, liquidity risk and systemic risk. The institutional dimension is also considered, as it is part of the banks' environment. We also cover the banking crisis that started in 2007 as it has dramatically affected banks and in turn the other parts of the economy. It is necessary to have studied previously a course on Statistics or Econometrics, and an introduction to Finance. The objective of the course is that the students understand the main issues in Banking.

### 2. Competences to be attained:

The general competencies are to be able to understand qualitative and quantitative information, to work on teams, to present in public, and to understand complex information (on Finance). In particular, G2, G4, G6, G7, G15, G16, G20. The specific competencies are to interpret and understand: balance sheets of banks, bank risks, bank fragility, financial crises, banking regulation and supervision, and central banks; in particular E2, E5, E6.

### 3. Contents:

1. Introduction to banking and other financial intermediaries
2. Bank balance sheet and profit and loss accounts
3. Bank risks and the role of banks
4. Overview of the 2007-20XX financial/banking crisis
5. Systemic risk
6. Financial innovation, securitization and liquidity
7. Banking competition and globalization
8. Corporate governance in banking
9. Macro and micro prudential regulation and supervision

## 10. Banks and public policy: monetary policy, fiscal policy, and banking policy

### 4. Methodology: the course is based on

- Lectures, which are mainly based on different textbooks and papers – each week I will post the lectures and the references for each chapter.
- (Non-mandatory) student presentations and class discussions of (i) newspaper articles, (ii) balance sheet accounts of banks, (iii) papers, and (iv) stress-tests of banks in Spain, Europe and US.
  - These class presentations/discussions are mainly on the first five weeks.
  - These are non-mandatory if there are students who voluntarily are willing to present, otherwise they will be mandatory.
  - The newspaper articles are mainly from Financial Times, Wall Street Journal, the Economist, and local newspapers and blogs. We will also discuss balance sheet accounts from important or interesting banks, mainly from Spain, Europe and US. The papers/publications will be from academia, from central banks and other supervisory agencies, and from the industry.
- A mandatory 10-page report and presentation with Q&A on a relevant topic, by a group of approx. 4 people.
  - Topics can be on the recent financial crisis (US subprime, Irish banking crisis, Icelandic banking crisis, Euro area crisis... and particular aspects associated to it as financial innovation, international financial contagion, foreclosures, conflicts of interest, the leverage and credit cycle, regulatory arbitrage, business models in Banking...), the Spanish banking crisis (cajas, Bankia, real estate bubble and burst, failed banks/cajas, Sareb, Frob, rescue/ bail-out, ECB liquidity assistance, preferred shares/ subordinated debt, foreclosures and loans with full recourse, credit boom and crunch and real effects, ...), previous crises (Japanese crisis, Scandinavian crisis, the US Saving and loan crisis, Great Depression, Asian crisis, Latin American crisis, LTCM/Russian crisis...), academic papers on banks and other financial intermediaries (theoretical and/or empirical), etc.
  - These class presentations/discussions are mainly on the last five weeks. Groups that present first will in principle get a better grade.

### 5. Assessment:

- A written final-exam: 70%
- (The non-mandatory) class presentations/participation and the mandatory written report (and associated presentation): 30%

- good participation in class raises the grade, bad participation lowers the grade.
- The course is passed with a total evaluation of at least 50%, i.e. 5 out of 10. Revision of grades can lead to higher evaluation or to lower evaluation. If the evaluation is lower than 50%, there will be another exam in the third quarter that will count 100% of the final grade, and pass will be at least 50% of the grade.

## 6. Bibliography:

- Anthony Saunders and Marcia Cornett, "Financial Institutions Management: A Risk Management Approach" McGraw-Hill Ryerson.
- Xavier Freixas and Jean-Charles Rochet. 2008. Microeconomics of Banking, MIT Press.
- Franklin Allen, and Douglas Gale. 2000. Comparing Financial Systems. MIT Press.
- Charles P. Kindleberger. 1993. A Financial History of Western Europe. Oxford University Press.
- Andrea Resti and Andrea Sironi, "Risk Management And Shareholders' Value In Banking: From Risk Measurement Models To Capital Allocation Policies", Wiley.
- Xavier Freixas, Luc Laeven and José-Luis Peydró. 2013 (in preparation). Systemic Risk and Macroprudential Policy. MIT Press.
- Olivier de Bandt, Philipp Hartmann, and José-Luis Peydró. 2009 (new ed. in 2013) "Systemic Risk in Banking" Oxford Handbook of Banking, ed. by A. Berger, P. Molyneux and J. Wilson, Oxford University Press.
- Thoersten Beck (ed). 2011. The Future of Banking. CEPR VoxEU.
- Mathias Dewatripont and Xavier Freixas (ed). 2012. The Crisis Aftermath: New Regulatory Paradigms. CEPR VoxEU.