

Central European University
Department of Economics

1. Name of Course: Financial Institutions and Intermediation
2. Lecturer: Steven Plaut
3. Number of Credits: 2 CEU Credits
4. Semester or Time Period of the Course: Fall/winter term
5. Pre-Requisites: For second year economics MA students and PhD students – micro and macro.
6. Course level: Second year MA
7. Course Outline: The course is a survey of issues related to financial institutions, financial intermediation, and related markets. Detailed discussion of pension funds and pension systems. Fixed-income investments are analyzed, together with issues of cash flow stripping and repackaging. Securitization is analyzed and explored. Analysis of interest rate risks in financial institutions and of their control is elaborated.
8. Goals of Course: Introducing students to the economics of financial institutions and intermediaries, their markets and behavior, current thinking in financial economics regarding these institutions, especially in a time of financial crisis.
9. The learning outcomes of the course: Familiarity with financial institutions, including banks and pension funds, pricing and credit allocation market mechanisms, the role of pension intermediaries, international banking, and other similar topics.

Course reading materials: Students will receive a "reader" of chapters from leading Financial economics textbooks plus recent state-of-the-art journal articles from research journals.

The final course grade is based mainly on a final written exam. Students auditing the course must take the exam and pass it with a grade of C+ to receive audit credit. Class attendance is mandatory for all students.

Preliminary structure and topics in order of coverage:

- I. Introduction to Banking and Financial Intermediation (Theories of intermediation. Demographic role of intermediaries. Asset transformation roles of intermediaries vs. asset brokers. Disintermediation)

Matthews and Thompson, *The Economics of Banking*, 2008, Wiley (in reader), Chapters 3, 4, 6

Fama, Eugene, "What's Different about Banks?", *Journal of Monetary Economics* 15, 1985, 29-39.

Santomero, Anthony M., "The Changing Structure of Financial Institutions: A Review Essay," *Journal of Monetary Economics*; 24(2), September 1989, pages 321-28

II. Basics of the Bank's Balance Sheet

Allen, Franklin; Santomero, Anthony M., "The Theory of Financial Intermediation," *Journal of Banking and Finance*; 21(11-12), December 1997, pages 1461-85.

Mishkin, Frederick, *Money, Banking and Financial Markets* (8th ed), Ch. 9

III. Off-Balance Sheet Banking and Securitization

Anthony Saunders, *Financial Markets and Institutions: A Modern Perspective*, Chapters 21, 22

Gup, Benton E. / Kolari, James W. *Commercial Banking: The Management of Risk*, Ch 14 (recommended only, not required)

Rose and Hudgins, *Bank Management and Financial Services*, McGraw Hill, Chapter 9

Coval, Joshua, Jakub Jurek and Erik Stafford, "The Economics of Structured Finance," *Journal of Economic Perspectives* Volume 23, Issue 1, Winter 2009, can be read online at <http://www.aeaweb.org/articles.php?doi=10.1257/jep.23.1.3>

IV. Cash Flow Repackaging, its Instruments and its Derivatives

Frank J. Fabozzi, *Fixed Income Analysis* (CFA Institute Investment Series), 2007, 2nd edition, Chapters 3, 10, 11, 12 (or substitute chapters in reader)

Charles Austin Stone and Anne Zissu, *The Securitization Markets Handbook: Issuing and Investing in Mortgage and Asset-backed Securities*, Chapters 1-4 (recommended only, not required)

V. Loan Contracting and Commercial Lending

Gup, Benton E. / Kolari, James W. Commercial Banking: The Management of Risk Chapter 9 (recommended only, not required)

Rose and Hudgins, Bank Management and Financial Services, McGraw Hill, Chapter 16

Matthews and Thompson, The Economics of Banking, 2008, Wiley (in reader), Chapters 8

VI. Regulation of Financial Intermediaries: The "Basel Standards," Capital Adequacy, Risk Supervision

Matthews and Thompson, The Economics of Banking, 2008, Wiley (in reader), Chapters 7, 12

Rose and Hudgins, Bank Management and Financial Services, McGraw Hill, Chapter 15

Bhattacharya, Sudipto; Boot, Arnoud W. A.; Thakor, Anjan V., "The Economics of Bank Regulation," Journal of Money, Credit, and Banking; 30(4), November 1998, pages 745-70.

"Deposit Insurance Around the Globe: Where Does It Work?"

Demirgüç-Kunt, Asli and Edward J. Kane. (2002) Journal of Economic Perspectives Volume 16, Issue 2, Spring 2002 (can be read online <http://www.aeaweb.org/articles.php?doi=10.1257/0895330027319>)

The Cost of Banking Regulation: read at

<http://www.federalreserve.gov/pubs/staffstudies/171/ss171.pdf> (recommended only, not required)

Mishkin, Frederick, Money, Banking and Financial Markets (8th ed), Ch. 11

VII. Measures of Interest Risk Exposure, Control and Management of Interest Risks in Financial Intermediaries

Matthews and Thompson, The Economics of Banking, 2008, Wiley (in reader), Chapters 13

Rose and Hudgins, Bank Management and Financial Services, McGraw Hill, Chapters 7

Gup, Benton E. / Kolari, James W. Commercial Banking: The Management of Risk Chapter 5 (recommended only, not required)

Santomero, Anthony M., "Commercial Bank Risk Management: An Analysis of the Process," Journal of Financial Services Research; 12(2-3), Oct.-Dec. 1997, pages 83-

Value at Risk and Bank Capital Management, by Francesco Saita, 2007, chapters 1-2

VIII. International Banking and the Euro Banking Markets (LIBOR, Euribor, Payments Systems Risks, Eurobonds, Eurocurrency Deposit Markets)

Roy C. Smith and Ingo Walter, Global Banking (Economics & Finance), 2003
Chapters 6, 9, Chapter 13 (in reader)

Steven E Plaut Arie L Melnik, International institutional lending arrangements to sovereign borrowers Journal of International Money and Finance Aug 2003 22(4) 459

IX. Pension Funds, "Social Insurance" and Provident Funds – Part I

David Blake, Pension Economics, Wiley, Chapters 1-3

Louise Fox, Pension Reform in the Post-Communist Transition Economies, can be read at <http://www.nap.edu/html/transform/ch14.htm>

Nicholas Barr and Peter A. Diamond, The Economics of Pensions, Massachusetts Institute of Technology (MIT), Oxford Review of Economic Policy, Vol. 22, No. 1, pp. 15-39, 2006 can be read from http://papers.ssrn.com/sol3/papers.cfm?abstract_id=906423

X. Pension Funds, "Social Insurance" and Provident Funds – Part II

David Blake, Pension Economics, Chapters 7

"Pensions Systems and Reforms in Transitional Economies," can be read here: http://www.unece.org/ead/pub/993/993_4.pdf

Lindeman, David, Rutkowski, Michal, Sluchynskyy, Oleksiy, "The evolution of pension systems in Eastern Europe and Central Asia : opportunities, constraints, dilemmas and emerging best practices," can be read here: http://www-wds.worldbank.org/external/default/main?pagePK=64193027&piPK=64187937&theSitePK=523679&menuPK=64187510&searchMenuPK=64187283&theSitePK=523679&entityID=000094946_00092105321112&searchMenuPK=64187283&theSitePK=523679

Nicholas Barr, "The Pension Puzzle; *Prerequisites and Policy Choices in Pension Design*," read at <http://www.imf.org/External/Pubs/FT/issues/issues29/index.htm>

Zvi Bodie, John B. Shoven, David A. Wise, Issues in Pension Economics (National Bureau of Economic Research Project Report), Chapters 1, 2, 6, 8 (see reader)

XI. The Role of Financial Institutions in the Current Global Economic Crisis

David K. Eiteman, Arthur I. Stonehill, Michael H. Moffett, Multinational Business Finance (12th Edition), Chapters 18, 23, 24