



## COURSE SYLLABUS

### CONTEMPORARY FINANCIAL INTERMEDIATION

#### Instructors:

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#### Organization of the course

<b>Program</b>	Master in Corporate Finance
<b>Year</b>	1-st year
<b>Course status</b>	Elective
<b>Workload</b>	6 ECTS, 45 hours of classes
<b>Teaching methods</b>	Lectures, seminars, group work, exercises, home and class assignments.

#### Course objectives

The main objective of the course is to familiarize students with the main aspects of financial intermediation in general and banking in particular. The importance of financial intermediation and appropriate risk management has been emphasized by the recent financial crisis. Moreover, financial intermediation has evolved rapidly during the last 20 years. It remains an essential and fast evolving part of the economy. Banks are an important component of financial intermediation. Their role, risks and regulation are rapidly changing.

Students have to obtain the following key skills during the course:

- general understanding of the role of financial intermediation;
- understanding of the role of banks as financial intermediaries;
- understanding of the risks faced by banks and risk management practices;
- knowledge of the main components of a bank's balance sheet;
- understanding of the role of off-balance sheet items;
- understanding of the need for bank regulation and knowledge related to the main issues of bank regulation;
- understanding of the role of banks and other financial intermediaries in the recent crisis;
- understanding of the causes of the recent housing and financial crisis ;
- understanding of the mechanics and details of interest rate transmission channels

The timeline is meant as a guide, but the instructor reserves the right to modify the class schedule.

## Course content

Part I. Theoretical overview of financial intermediation and banking

Topic 1. Overview of financial intermediation

Topic 2. Main risks faced by banks

Topic 3. Bank Lending

Topic 4. Bank Deposits

Topic 5. Off-balance sheet items

Topic 6. The need for bank regulation

Part II. Bank regulation, financial crises and effects on the economy

Topic 1. Banking Structure and Regulation

Topic 2. The Financial Crisis

Topic 3. Interest rates and Monetary Transmission Channels

## Plan of classes

### Part I. Theoretical overview of financial intermediation and banking

Topic 1. Overview of financial intermediation	
Date: 22.05.2014 Time: 10.-14.30 Room: 209	The topic is an introductory one, providing a general picture of financial intermediation and the role of banks.  Main issues covered: <ul style="list-style-type: none"><li>- the need for financial intermediation</li><li>- types of financial intermediaries</li><li>- the need for regulation in financial intermediation</li><li>- the role of banks as financial intermediaries</li></ul>
Topic 2. Main risks faced by banks	
Date: 23.05.2014 Time: 10.45-14.30 Room: 209	The topic is presents an overview of the main types of risks faced by banks. The focus is first of all on balance-sheet items.  Main issues covered: <ul style="list-style-type: none"><li>- the main types of risk faced by banks and the ways in which those risks define banking</li><li>- credit risk</li><li>- interest rate risk</li><li>- liquidity risks</li><li>- other risks faced by banks</li></ul>
Topic 3. Bank Lending	
Date: 24.05.2014 Time: 10.45-16.15 Room: 209	The topic is an overview of various types of bank assets.  Main issues covered:

	<ul style="list-style-type: none"> <li>- main assets on bank balance sheets</li> <li>- loans and loan agreements</li> <li>- types of loans</li> <li>- credit analysis</li> <li>- lending relationships</li> <li>- management of a loan portfolio</li> <li>- loan syndicates and loan sales</li> <li>- credit rationing</li> </ul>
<b>Topic 4. Bank Deposits</b>	
Date: 26.05.2014 Time: 9.00-14.30 Room: 209	The topic provides an overview of bank deposits and more generally sources of funds for banks.  Main issues covered: <ul style="list-style-type: none"> <li>- deposits as a source of funding for banks</li> <li>- the need for deposit insurance</li> <li>- other sources of funds and their challenges</li> </ul>
<b>Topic 5. Off-balance sheet items</b>	
Date: 26.05.2014 Time: 9.00-14.30 Room: 209	The topic provides an overview of off-balance sheet items, their attractive features from the banks' point of view, their risks and their regulatory challenges.  Main issues covered: <ul style="list-style-type: none"> <li>- main types of off-balance sheet items</li> <li>- advantages for bank customers</li> <li>- advantages for banks</li> <li>- regulatory challenges</li> </ul>
<b>Topic 6. The need for bank regulation</b>	
Date: 27.05.2014 Time: 9.00-15.15 Room: 209	The topic provides an introduction to bank regulation. The issue is developed in the second part of the course.  Main issues covered: <ul style="list-style-type: none"> <li>- the need for regulation</li> <li>- main challenges of regulation</li> <li>- examples</li> </ul>

## **Part II. Bank regulation, financial crises and effects on the economy**

<b>Topic 1. Banking Structure and Regulation</b>	
Date: 28.05.2014 Time: 13.00-18.45 Room: 205	The topic presents the need for financial regulation and the challenges of financial regulation from a central bank's point of view.
<b>Topic 2. The Financial Crisis</b>	
Date: 29.05.2014 Time: 09.00-15.15 Room: 209	The topic presents an overview of the recent financial crisis.  Main issues covered: <ul style="list-style-type: none"> <li>- House prices and bubbles</li> <li>- Understanding the foreclosure crisis</li> <li>- The securitization failures</li> </ul>

	<ul style="list-style-type: none"> <li>- Mortgage finance</li> <li>- Rating agencies</li> <li>- Financial innovation and derivatives market</li> </ul>
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Topic 3. Interest rates and Monetary Transmission Channels	
Date: 30.05.2014 Time: 09.00-14.30 Room: 209	<p>The topic links financial intermediaries and the macroeconomy.</p> <p>Main issues covered:</p> <ul style="list-style-type: none"> <li>- The credit channel</li> <li>- Balance sheet channel</li> <li>- Bank lending channel</li> <li>- Cost of capital channel</li> <li>- Bank risk taking channel</li> <li>- Bank Capital channel</li> <li>- Banks' unique role in information production</li> </ul> <p>The final part of the class will include a revision of the material covered during the course.</p>

## Evaluation system

The first part of the course is followed by a midterm. The midterm will be in writing, and will take place in class. It will last for 45 minutes and will consist of basic exercises and a set of brief theory questions about the topics covered during the first part of the course. The midterm will be closed book, but calculators will be allowed. The midterm will be graded on a scale of 1 to 15 and represents 15% of the final grade.

Students will also have to submit a home assignment by the end of the course. The assignment consists of an essay based on the reading material posted online and the material covered in class. The text of the assignment will be posted at the beginning of the course. The grade for the assignment represents 15% of the final grade.

The final exam will cover the most important topics of the entire course. The exam will be online, open book, and will last for 90 minutes. The structure of the exam will be as follows:

Part 1. A practical exercise which also requires some basic calculations, e.g. about the duration of a bank's assets. The maximum score for the exercise is 15 points.

Part 2. Three open questions about two main issues covered during the course. Each of the questions represents 15 points.

Part 3. Two statements that can be true or false. Students are required to state whether each statement is true or false, and to explain their choice. Each answer can receive up to 5 points.

The total score for the exam is 70 points; the exam represents 70% of the final grade.

The following criteria will be used to grade the assignment, midterm and final exam:

- The answers should be brief and to the point.
- Students should show that they have assimilated the material covered in class, and in the case of the assignment that they have also read the additional material.
- Students should attempt to provide the justification of their statements. For instance, if a statement is true or false, it should also be explained why. If a given risk affecting the banking system requires regulation, the need for regulation should be justified based on the arguments covered during the course.

An example of a final exam will be posted online.

### Grading policy

The final grade consists of the following elements:

<i>Element</i>	<i>Weight</i>		
1. Exam	70 %	70 %	100 %
2. Mid-term	15 %	30 %	
3. Home assignment	15 %		

### **Literature:**

#### **Required reading:**

1. Greenbaum, Stuart I. and Thakor, Anjan V. - Contemporary Financial Intermediation, Academic Press, 2007
2. Mishkin F. "The Economics of Money, Banking and Financial Markets", 7th edition

#### **Optional reading**

1. Mishkin, F., and Eakins, S. - Financial Markets and Institutions, 7<sup>th</sup> edition, 2012
2. Freixas, X., and Rochet, Jean-Charles – Microeconomics of Banking, 2<sup>nd</sup> edition, Additional reading materials (articles) will be posted online.