

# ECON 5350 Banking and Financial Intermediation

Department of Economics

Hong Kong University of Science and Technology

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## **Course Objectives**

This course provides an introduction to banking and financial intermediation. It aims to enable students to understand (i) banking and financial intermediation as institutional arrangements to overcome some fundamental frictions of an economy, (ii) common practices in financial intermediation, (iii) financial crisis and regulations, and (iv) macroeconomic implications of financial intermediation.

## **Intended Learning Outcomes**

1. Know the basic theories built on risk sharing and delegated monitoring. (PILO 1, 2)
2. Understand complicity of the borrower-leader relationship due to informational frictions. (PILO 1, 2)
3. Learn theory implications on common practices in financial intermediation, financial crisis and regulations (PILO 1, 2)
4. Conduct theory-guided examination of banking phenomena quantitatively and qualitatively.

**Prerequisites:** Econ 5130, 5140

## **The course material**

1. Lecture notes.
2. Reference book: Xavier Freixas and Jean-Charles Rochet, *Microeconomics of Banking*, 2nd Edition, MIT Press.

**Grading:** The grade is based on the final exam.

**Academic integrity:** Cheating and plagiarism are not tolerated. Any violation will be reported to the university. See <http://www.ust.hk/vpaa/ug-guide/integrity/> for details.

**Course outline** (subject to adjustment if necessary)

Lecture 1: Intermediary as coalition of consumers

Lecture 2: Intermediary as delegated monitor

Lecture 3: Partial disclosure and costly state verification

Lecture 4: Collateral, bank's capital, and credit crunch

Lecture 5: Intermediary as coalition of producers

Lecture 6: Credit Rationing

Lecture 7: Central banking