Economics 5350 Banking and Financial Intermediation

Department of Economics

Hong Kong University of Science and Technology

Spring 2026

(Rm 6753, Main Bldg, Tu 6:00PM-9:20PM)

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Course Objectives

This course provides an introduction to banking and financial intermediation. It aims to enables 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 complicacy 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/vpaao/ug-guide/integrity/ for details.

Course outline (subject to adjustment if necessary)

03/31 Introduction/Lecture 1

04/07 Lecture 1

04/14 Lecture 2

04/21 Lecture 3

05/05 Lecture 4

05/12 Lecture 5/6

05/19 Final exam

Lecture 1: Intermediary as coalition of consumers

Lecture 2: Intermediary as delegated monitor

Lecture 3: Intermediary as coalition of producers

Lecture 4: Some contracting theory

Lecture 5: Collateral, bank's capital, and credit crunch

Lecture 6: Credit Rationing