



北京大學
汇丰商学院

Peking University HSBC Business School

Course Code
Course Name
Module, Academic Year

Course Information

Instructor: Zilong Zhang

Office: PHBS Building, Room 653

Phone: 86-755-2603-2579

Email: zlzhang@phbs.pku.edu.cn

Office Hour: Mon 11:00am-12:00pm

Teaching Assistant:

Phone:

Email:

Classes:

Lectures: Mon & Thu 8:30-10:20am

Venue: PHBS Building, Room 229

Course Website:

NA.

1. Course Description

1.1 Context

Course overview: This course provides an introduction to banking and financial intermediation. It enables students to know the models in which banking and financial intermediation emerge as institutional arrangements to overcome some fundamental frictions of an economy. Those models help understand some common practices in financial intermediation and the core linkage between intermediation and financial fragility/crises. All models are based on research papers but are simplified toy models.

Prerequisites: Econ 500 and Econ 510

1.2 Textbooks and Reading Materials

Xavier Freixas and Jean-Charles Rochet, *Microeconomics of Banking*, 2nd Edition, MIT Press.

2. Learning Outcomes

2.1 Intended Learning Outcomes

Learning Goals	Objectives	Assessment
1. Our graduates will be effective communicators.	1.1. Our students will produce quality business and research-oriented documents.	
	1.2. Students are able to professionally present their ideas and also logically explain	

	and defend their argument.	
2. Our graduates will be skilled in team work and leadership.	2.1. Students will be able to lead and participate in group for projects, discussion, and presentation.	
	2.2. Students will be able to apply leadership theories and related skills.	
3. Our graduates will be trained in ethics.	3.1. In a case setting, students will use appropriate techniques to analyze business problems and identify the ethical aspects, provide a solution and defend it.	
	3.2. Our students will practice ethics in the duration of the program.	
4. Our graduates will have a global perspective.	4.1. Students will have an international exposure.	
5. Our graduates will be skilled in problem-solving and critical thinking.	5.1. Our students will have a good understanding of fundamental theories in their fields.	
	5.2. Our students will be prepared to face problems in various business settings and find solutions.	
	5.3. Our students will demonstrate competency in critical thinking.	

2.2 Course specific objectives

I. Students will have a good understanding of fundamental banking theories. They should be able to explain each model intuitively, and analyze practical issues based on theories.

II. Students will acquire basic modelling skills. They will be able to apply microeconomic analyses to solve problems in the field.

III. Students will be skilled in critical thinking. They are encouraged to criticize the model, lead discussions, and provide different perspectives.

IV. Students will have good communication skills. They will be able to professionally present their ideas and intuitively explain their argument.

2.3 Assessment/Grading Details

The course is assessed by class participation (15%), a mid-term examination (35%), and a final examination (50%).

2.4 Academic Honesty and Plagiarism

It is important for a student's effort and credit to be recognized through class assessment. Credits earned for a student work due to efforts done by others are clearly unfair. Deliberate dishonesty is considered academic misconducts, which include plagiarism; cheating on assignments or examinations; engaging in unauthorized collaboration on academic work; taking, acquiring, or using test materials without faculty permission; submitting false or incomplete records of academic achievement; acting alone or in cooperation with another to falsify records or to obtain dishonestly grades, honors, awards, or professional endorsement; or altering, forging, or misusing a University academic record; or fabricating or falsifying of data, research procedures, or data analysis.

All assessments are subject to academic misconduct check. Misconduct check may include reproducing the assessment, providing a copy to another member of faculty, and/or communicate a copy of this assignment to the PHBS Discipline Committee. A suspected plagiarized document/assignment submitted to a plagiarism checking service may be kept in its database for future reference purpose.

Where violation is suspected, penalties will be implemented. The penalties for academic misconduct may include: deduction of honour points, a mark of zero on the assessment, a fail grade for the whole course, and reference of the matter to the Peking University Registrar.

For more information of plagiarism, please refer to *PHBS Student Handbook*.

3. Topics, Teaching and Assessment Schedule

I. Introduction to Banking Industry

- **Summary:** This topic introduces the definition of a bank, and discusses the major functions banks perform in the modern economy.

- **Course Outline:**

- The role of financial intermediaries:
 - Transaction costs
 - Coalitions of depositors and liquidity insurance
 - Coalitions of borrowers and the cost of capital
 - Financial intermediation as delegated monitoring
 - The choice between market debt and bank debt
 - Liquidity provision to firms

- Discussions

- **Reading List:**

- Chapter 1 of Freixas-Rochet.

II. Banks as Liquidity Insurance Providers

- **Summary:** Why do banks exist? This topic considers banks as pools of liquidity that provide households with insurance against idiosyncratic shocks that affect their consumption needs.

- **Course Outline:**

- Diamond-Dybvig model:
 - Characteristics of the optimal allocation
 - Autarky
 - Market economy
 - Equilibrium with financial intermediation

- Extensions and Discussions

- **Reading List:**

- Chapter 2 of Freixas-Rochet.
- Diamond, D. W., and P. H. Dybvig. 1983. *Bank runs, deposit insurance, and liquidity*. *Journal of Political Economy* 91(3): 401-419.

III. Banking as Delegated Monitoring

- **Summary:** Why do individual lenders tend to delegate the monitoring activity to banks instead of performing it themselves? This topic explains how banks economize on monitoring costs and specifies conditions under which banks provide reliable information to individual lenders.

- **Course Outline:**

- Diamond model:
 - Direct lending
 - Delegated monitoring
 - Diversification and the cost of monitoring

- Extensions and Discussions

- **Reading List:**

- Chapter 2 of Freixas-Rochet.
- Diamond, D. W. 1984. *Financial intermediation and delegated monitoring*. Review of Economic Studies 51 (3): 393-414.

IV. The Coexistence of Intermediaries and Markets

- **Summary:** Why, in general, do larger firms borrow from markets, while smaller firms borrow from banks? This topic provides the insight that when banks play the role of monitors of borrowers, they can coexist with markets, and reduce credit rationing. The role for bank capital will also be discussed.

- **Course Outline:**

- Holmstrom-Tirole model:
 - Arms-length lending
 - Intermediated lending with monitoring
 - Credit market equilibrium
 - Credit crunch
- Extensions and Discussions

- **Reading List:**

- Chapter 2 of Freixas-Rochet.
- Holmstrom, B., and J. Tirole. 1997. *Financial intermediation, loanable funds, and the real sector*. Quarterly Journal of Economics 112 (3): 663-691.

V. Relationship Lending and the Disciplinary Role of Bank Runs.

- **Summary:** Why are bank loans financed by fragile (subject to runs) deposit bases? This topic provides an alternative justification for banking based on the disciplinary role of bank runs.

- **Course Outline:**

- Diamond-Rajan model:
 - The illiquidity of loans
 - Two potential hold-up problems
 - Demand deposit contracts
 - Discussions: intermediation and financial fragility
- Extensions

- **Reading List:**

- Chapter 7 of Freixas-Rochet.
- Diamond, D. W., and R. G. Rajan. 2001. *Liquidity Risk, Liquidity Creation, and Financial Fragility: A Theory of Banking*. Journal of Political Economy 109 (2), 287-327.

VI. Financial Fragility of Banking

- **Summary:** Why do bank runs occur? This topic uses a global-game approach to show that even though bank runs are caused by banks' weak assets, they are inefficient.

- **Course Outline:**

- Morris-Shin model:
 - The introduction of information asymmetry to Diamond-Dybvig model
 - The equilibrium: a global-game approach
 - Discussions: financial crisis and bank runs
- Extensions: rollover risk

- **Reading List:**

- Morris, S., and H. S. Shin. 2000. *Rethinking multiple equilibria in macroeconomic modelling*. NBER Macroeconomics Annual. Cambridge, Mass.: MIT Press.

– Morris, S., and H. S. Shin. 2003. *Global Games: Theory and Applications in Advances in Economics and Econometrics*, the Eighth World Congress (edited by M. Dewatripont, L. Hansen and S. Turnovsky), Cambridge University Press.

4. Miscellaneous