

**Economics 613I Banking and Financial Intermediation**  
(W 1:00-2:50 4480)

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**Course Objectives**

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. They are also useful to understand financial crisis and regulations.

**Intended Learning Outcomes**

1. Know the basic models built on coalition of depositors, coalition of borrowers, delegated monitoring, etc. (PILO 1, 2)
2. Learn the complicity of the borrower-leader relationship due to costly state verification and moral hazard. (PILO 1, 2)
3. Understand some common practices in financial intermediation, financial crisis and regulations (PILO 1, 2)

**Prerequisites:** Econ 513, 514

**Textbook**

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

**Grading**

The grade is based on the performance of the midterm exam (30%) and the final exam (70%). The final exam is accumulative. There is no make-up for any mid-term exam. If you have a valid excuse, you are graded proportionately by the work completed. Illness is taken as a valid excuse only

if a doctor indicates by a written note that illness affects you to take the exam. Refer to the University's policy for validity of other excuses. There are homework sets but they are not graded. There are homework sets but they are not graded.

**Academic integrity:** Cheating and plagiarism are not tolerated. Any violation will be reported to the university. For detailed policy, please refer to <http://www.ust.hk/vpao/ug-guide/integrity/>.

### **Course Outline**

- 03/02 Introduction [Ch 1]
- 10/02 Transaction costs, Coalitions of depositors [Ch 2.1, 2.2]
- 17/02 Coalitions of borrowers, Delegated monitoring [Ch 2.3, 2.4]
- 24/02 Market and bank debts [Ch 2.5]
- 03/03 Lender and borrower: benchmark and costly state verification [Ch 4.1, 4.2]
- 10/03 Incentive to repay, Moral hazard [Ch 4.3, 4.4]
- 17/03 Incomplete contract, Collateral [Ch 4.5, 4.6]
- 24/03 Credit rationing [Ch 5]
- 31/03 No class/*Midterm* for Ch 2 and 4
- 14/04 Financial imperfections and macro consequences [Ch 6]
- 21/04 Bank runs [Ch 7]
- 28/04 [Ch 7] con't
- 05/05 Credit and liquidity risks [Ch 8.1, 8.2]
- 12/05 Regulation [Ch 9]