

Economics 5350 Banking and Financial Intermediation

Department of Economics

Hong Kong University of Science and Technology

(Spring 2019 Th 9:00-12:20 1014 LSK)

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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 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 performance of homework sets (15%), the midterm exam (25%), and the final exam (60%). The final exam is accumulative.

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)

31/01 Introduction, Lecture 1

14/02 Lecture 1

21/02 Lecture 2

28/02 Lecture 3

07/03 Lecture 4

14/03 Lecture 5 (9-10:30) and midterm (11:00-12:20)

21/03 Lecture 6

28/03 Lecture 7

Lecture 1: Intermediary as coalition of consumers

Lecture 2: Intermediary as coalition of producers

Lecture 3: Intermediary as delegated monitor

Lecture 4: Partial disclosure and costly state verification

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

Lecture 6: Credit Rationing

Lecture 7: Liquidity, credit line