

Economics 5350 Banking and Financial Intermediation

Department of Economics

Hong Kong University of Science and Technology

(Spring 2020, Rm 1009, LSK, Th 9:00-12:50)

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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%) and the final exam (85%). Homework sets are done on the group base; groups are formed after the add-drop period is over.

Academic integrity: Cheating and plagiarism are not tolerated. Any violation will be reported to the university. See <http://www.ust.hk/vpaa0/ug-guide/integrity/> for details.

Course outline (subject to adjustment if necessary)

20/02 Introduction, Lecture 1

27/02 Lecture 1

05/03 Lecture 1, Lecture 2

12/03 Lecture 3

19/03 Lecture 4, Lecture 5

26/03 Lecture 6

Lecture 1: Intermediary as coalition of consumers

Lecture 2: Intermediary as delegated monitor

Lecture 3: Partial disclosure and costly state verification

Lecture 4: Credit Rationing,

Lecture 5: Intermediary as coalition of producers

Lecture 6: Collateral, bank's capital, and credit crunch