

EIEF - Einaudi Institute for Economics and Finance (may 2016)

## Topics in Banking and Banking Regulation

*Syllabus*

Jean-Pierre Danthine  
Paris School of Economics

### **Lecture 1. The Great Mortgaging**

1. Banks and the Great Financial Crisis: an overview.  
Three phases – a real estate crisis, a liquidity crisis, a sovereign debt crisis – each with critical bank involvement.
2. Real estate: what do banks do (i)? The great mortgaging
3. What else do banks do? Beyond real estate
4. The new banking reality: open questions
5. Implications for growth, welfare and financial stability

### **Lecture 2. Banks are fragile!**

1. Banks' intrinsic fragility
2. Why did we let them be so fragile (Basel 2)?
3. Why were they willing to be even more fragile?
4. Lessons learned (and not learned): Basel 3
5. The European sovereign debt crisis – external banking flows – the internationalization of banking - the bank- sovereign vortex
6. What are the benefits of international banking flows?

### **Lecture 3. Liquidity**

1. Bank runs and the freezing of the Interbank market in the GFC
2. What do banks do (ii)? Trade with each other!
3. Liquidity provision: central banking in bad times
4. The LOLR function of CB's – the view before and the view after
5. Complementing the LOLR: regulatory liquidity requirements
6. LOLR in action: UBS case study

### **Lecture 4. TBTF**

1. The problem and its consequences - When is big too big?
2. Measure of the implicit subsidy
3. Tackling TBTF at the root:
  - a. Recovery and resolution plans
  - b. TLAC etc.. (Cocos and bail- in -able debt)
4. TBTF in practice
5. Ringfencing and narrow banking?

## Lecture 5. Central Banks and Financial Stability

1. Central banks and financial stability before ...
2. And after the crisis
3. Systemic risk and macroprudential policy
4. Should central banks be involved?
5. Leaning against the wind: the pros and cons
6. The financial cycle
7. Macropru: a first experience

## References

- Admati A.R. and M. Hellwig, *The Bankers' New Clothes: What's Wrong with Banking and What To Do about It*, Princeton University Press, 2013
- Aikman D., M. Galesic, G. Gigerenzer, S. Kapadia, A. Kothiyal, E. Murphy and T. Neumann, Taking uncertainty seriously: Simplicity versus complexity in financial regulation, Financial stability paper 28, Bank of England, 2014
- Anderson R.W. and K. Jöeveer, Scale, scope and complexity : assessing banking business models, *J. of Financial Perspectives*, 2, 2014
- Armstrong A. and E.P. Davis, Financial regulation: Not yet an efficient outcome, VOX – CEPR, April 2016
- Bean C., M. Paustian, A. Penalver and T. Taylor, Monetary Policy after the Fall, Federal Reserve Bank of Kansas City, 2010
- Beck T., Finance and Growth – beware the measurement, VOXeu.org, Sept. 2015
- \*Borio C., The financial cycle and macroeconomics: what have we learnt? BIS Working paper 395, December 2012
- \*Baldwin R. and F. Giavazzi, ed., *What caused the EZ Crisis?*, eBook, CEPR, 2015
- Bijlsma M.J. and R.J.M. Mocking, The private value of TBTF guarantees, CPB discussion paper 240
- Brunnermeier M.K., Deciphering the liquidity and credit crunch 2007-2008, *Journal of Economic Perspectives*, 23, 2009
- Calomiris C., Is a 25% bank equity requirement really a no-brainer? Vox CEPR, November 2013
- Danthine JP, Macropru in Switzerland, mimeo, 2016
- DeAngelo H. and R. Stulz, Liquid-claim production, risk management, and bank capital structure: Why high leverage is optimal for banks, *Journal of Financial Economics*, 116-2, 2015
- Fahlenbrach R. and R. M. Stulz, Bank CEO Incentives and the Credit Crisis, *Journal of Financial Economics*, 99, 2011
- Financial Stability Board, Historical Losses and Recapitalisation Needs, November 2015
- Gambacorta L. and H.Y. Shin, Why bank capital matters for monetary policy, BIS WP558, April 2016

Greenwood R. and D. Scharfstein, The Growth of Modern Finance, *Journal of Economic Perspectives*, 27(2), 2013

\*Gorton G., Slapped in the face by the invisible hand: Banking and the Panic of 2007, mimeo 2009

Haldane A.G., The \$100 billion question, Bank of England 2010

Haldane A.G., Have we solved the 'too big to fail'? Vox 2013

Huertas Th., Safe To Fail, How resolution will revolutionize banking, Palgrave-MacMillan 2014

\*Jordà O., M. Schularick and A.M. Taylor, The Great Mortgaging: Housing Finance, Crises, and Business Cycles, 2014

Kay J., *Other People's Money, The Real Business of Finance*, Public Affairs, NY, 2015

King M., *The End of Alchemy, Money, Banking and the Future of the Global Economy*, Norton 2016

Levine R., Finance and Growth: Theory and Evidence, Handbook of Economic Growth, Ph. Aghion and S. Durlauf, ed., 2005

Passari E. and H. Rey, Financial flows and the international monetary system, NBER WP21172, 2015

Svensson L., Monetary policy and macroprudential policy: different and separate, mimeo 2015

Turner A., *Between Debt and the Devil, Money, Credit and Fixing Global Finance*, Princeton University Press, 2016

*Comment:*

Kay, King and Turner are three general audience books providing a fascinating and provocative background for studying and questioning modern banking after the GFC. The starred references are the most appropriate pre-reading for Topics 1 (Jorda et al.), 2 (Baldwin and Giavazzi), 3 (Gorton) and 5 (Borio).