The first part of the course will cover some classic theoretical papers in banking and financial intermediation. The remaining parts of the course will cover papers on three interrelated topics in financial intermediation: liquidity, financial fragility, and payments.

Course Requirements

There will be two assignments. The first is a review of a recent theoretical paper on one of these topics. Each student will choose a paper from a major journal (Journal of Finance, Journal of Financial Intermediation, Economic Theory, Journal of Economic Theory, etc.) or an approved working paper and prepare a summary review and critique of the paper (maximum five pages). These reviews will also be presented at some point during the course. Choices should be cleared with me.

The second assignment will be to write your own paper on one of these topics. I recommend you take a recent paper and write a simple extension of it, in order to see whether the results continue to hold under a broader set of assumptions. But you are free to write on any topic mutually agreeable to you and me. While I want to make sure that the topic is chosen before the end of the spring semester, you are free to continue working on this assignment throughout the summer if you prefer.

The following pages outline the readings for the initial part of the course. In addition, the textbook Microeconomics of Banking, by X. Freixas and J.-C. Rochet (“FR” in the citations below) is optional; it covers several of the papers that we will discuss.

For the later parts of the course, the following text will be used


If there is time and interest, we will also examine some chapters of


Additional readings, including recent articles suitable for use in the first assignment, will be provided later.
COURSE OUTLINE

PART I: CLASSIC PAPERS IN BANKING THEORY

Papers listed in boldface will be discussed in detail.

Overview

Bank Deposits, Liquidity and Bank Runs
FR chapters 2 and 7.

Bank Lending
FR chapter 4.