

Financial Systems and Regulation/Asset Management

Area Finance, Banking and Insurance

Winter term 2021/22

Topic

During the class, we study actors on financial markets and the risks that arise due to asymmetric information, causing adverse selection and moral hazard. We evaluate these risks using both theoretical models and empirical evidence, focusing on the European financial system. Finally, the class discusses various measures of regulation in financial markets and shows how regulation can help to stabilize financial markets.

Syllabus

1. Introduction: The Functions of the Financial System

- a. Functions of a financial system
- b. Bank-based vs. market-based financial systems
- c. Recent changes in financial systems

References:

- de Haan/Oosterloo/Schoenmaker (2020), ch. 1
- Allen and Gale (2000), *Comparing Financial Systems*, Cambridge (MA): MIT Press
- Allen and Santomero (1997), The Theory of Financial Intermediation, *Journal of Banking and Finance*, 21, 1461-1485
- Carlin and Meyer (2000), How Do Financial Systems Affect Economic Performance?, in: Vives, X. (ed.), *Corporate Governance: Theoretical and Empirical Perspectives*, Cambridge University Press, 137-168
- Levine (2005), Finance and Growth: Theory, Mechanisms and Evidence, in: Aghion, P. and Durlauf, S. N. (eds.), *Handbook of Economic Growth*, Amsterdam: Elsevier, 856-923

2. European Financial Markets: Functions and Structure

- a. European Financial and Economic Integration
- b. European Financial Markets
- c. European Banks

References:

- de Haan/Oosterloo/Schoenmaker (2020), ch. 3, 5, 10
- Bikker, J.A.; Spierdijk, L. and Finnie, P. (2006), The Impact of Bank Size on Market Power, *DNB Working Paper 120*
- Claessens, S. and Laeven, L. (2004), What Drives Bank Competition? Some International Evidence, *Journal of Money, Credit and Banking*, 30, 3367-3392
- Hull, J.C. (2009), *Risk Management and Financial Institutions*, 2nd edition, Pearson Education

- Schoenmaker, D. (2013), *Governance of International Banking: The Financial Trilemma*, Oxford University Press
- Schoenmaker, D. (2014), The Emerging Banking Landscape of the New Banking Union, *Duisenberg School of Finance Policy Paper 35*

3. Theory of Banking and Financial Frictions

- a. Theory of banking
- b. Financial frictions in credit markets
 - i. Adverse selection
 - ii. Moral hazard
 - iii. Monitoring costs
 - iv. Agency costs

References:

- de Haan/Oosterloo/Schoenmaker (2020), ch. 10
- Walsh (2017), ch. 10.6

4. Financial Integration and Financial Innovation

- a. Financial integration
- b. Financial innovation

References:

- de Haan/Oosterloo/Schoenmaker (2020), ch. 6 & 8
- Baele, L.A.; Ferrando, A.; Hördahl, P.; Krylova, E. and Monnet, C. (2004), Measuring Financial Integration in the Euro Area, *ECB Occasional Paper 14*
- Litan, R. (2010), In Defense of Much, But Not All, Financial Innovation, *Wharton Financial Institutions Center Working Paper 2010-06*

5. Financial Regulation: Microprudential Supervision and Macroprudential Policy

- a. Rationale for financial regulation and supervision
- b. Microprudential supervision
- c. Macroprudential policy
- d. Crisis management and resolution

References:

- de Haan/Oosterloo/Schoenmaker (2020), ch. 12-13

Textbooks

- de Haan, Jakob; Oosterloo, Sander and Schoenmaker, Dirk (2020, 4th ed.): *Financial Markets and Institutions – A European Perspective*, Cambridge, UK: Cambridge University Press
www.cambridge.org/de_Haan3e
- Walsh, Carl E. (2017, 4th ed.): *Monetary Theory and Policy*, Cambridge, MA: MIT Press