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Instructor: Professor Kabir Hassan
Office: KH 438 G
Phone: 504-280-6163 (Office)

Office Hours: 11:00 AM-3:00 PM Tuesdays and 11:00AM-1:00 PM Wednesdays and by Appointment
Email: mhassan@uno.edu

I. Course Materials:

2. Journal Articles, Book Chapters and Working Papers

Additional References:

3. The Microeconomics of Banking by Xavier Freixas and Jean-Charles Rochet, Published by MIT Press, 1997.

II. Course Description

This course is open only to Ph.D. students in financial economics. The prerequisite to this course is Finance 6303 and/or permission of the instructor. This course examines the role of financial intermediaries in resolving informational asymmetries in the credit market and promoting economic development. The topics covered in this course include banking in general equilibrium theory, incomplete information theory of financial intermediation, industrial organization approach to banking, Managing risk in banks, banking and financial distress, bank regulation and deposit Insurance Contract, off-balance sheet banking risk, financial intermediation and monetary policy, financial intermediation and economic development, corporate control and governance in banking, free banking and interest-free banking system, efficiency of banking system, and financial theory of insurance industry.

III. Course Objectives

At the end of this seminar, the students are expected to know the following aspects of financial markets and institutions. First, we will examine the nature of banking and the justification for banks’ existence with a major focus on the theory of intermediation and competition among banks. Second, we will focus on bank risks- interest rate, market, liquidity and credit risks. Third, we will study the safety net of lender of last resort and deposit insurance and regulation of banking activities. Fourth, we will examine how and under what conditions monetary policy can be used to affect real and/or nominal macro-economic variables, and understand the importance of commercial banks in the various channels of the monetary transmission mechanisms. Finally, we will inform students of the current research on financial institutions and markets, so that they can develop knowledge and skills to conduct research in banking and finance.
IVa. Course Requirements:

The structure of the course will be a combination of student presentations, classroom discussions and lectures. I expect you to be diligent and sincere in all of your assignments. I expect you also to be on time. I might schedule additional class periods. Although I have assigned explicit grade weight to class participation, it is of the nature of the seminar course that you contribute effectively to classroom discussions. It will help you learn the materials in a friendly and congenial atmosphere.

Students are required to take one take-home final examination, turn in homework assignments and write and present article summaries in class, and write a research paper. The distribution of credit for each of these three areas is as follows:

| In-class Midterm Exam                        | 20% |
| Journal Article Reports and Presentation    | 30% |
| Article Referee Reports/Class Participation | 10% |
| Research Paper plus presentation            | 40% |

*Academic integrity is fundamental to the process of learning and evaluating academic performance. Academic dishonesty will not be tolerated. Academic dishonesty includes, but is not limited to, the following: cheating, plagiarism, tampering with academic records and examinations, falsifying identity, and being an accessory to acts of academic dishonesty. Refer to the Student Code of Conduct for further information. The Code is available online at [http://www.studentaffairs.uno.edu](http://www.studentaffairs.uno.edu).*

**It is University policy to provide, on a flexible and individualized basis, reasonable accommodations to students who have disabilities that may affect their ability to participate in course activities or to meet course requirements. Students with disabilities should contact the Office of Disability Services as well as their instructors to discuss their individual needs for accommodations. For more information, please go to [http://www.ods.uno.edu](http://www.ods.uno.edu).**

V. Research Paper and Presentation:

Each student is required to write a comprehensive research paper with publishable quality for this course. Each student is advised to consult with me before he/she embarks on her research paper. The length of this paper should be 35 pages (double-spaced, 11 cpi., approximately 8000 to 10,000 words) excluding endnotes, references, tables and graphs. The criteria for evaluating the research paper are as follows: the purpose and significance of the paper, literature review, testable hypothesis, data and methodology, empirical results and/or implications of theory, and quality of writing. The student will make a presentation on his research paper towards the end of the semester. I expect each student to read at least twenty articles in his/her research area.

VI. Journal Article Referee Report:

You will read and comment on articles that are submitted to the four journals that I edit (Journal of Economic Cooperation and Development (SESRIC, Anakara, Turkey), the Global Journal of Finance and Economics (New Delhi, India), and Journal of Islamic Economics, Banking and Finance (IBBL, Dhaka, Bangladesh) and International Journal of Islamic and Middle Eastern Finance and Management (Emerald, UK)) and other
articles that I assign you. In each referee report, you will a. summarize the essential points in one page; b. give your critical comments on the strength and weaknesses of the paper in one page; c. give your suggestions for improvements in another page. The referee report will vary in format and size and I will explain this to you when I assign an article to you.

VII. Required Reading Presentations

A reading list is attached with this syllabus. The students are required to write 1 pages single-spaced summaries of assigned articles. This summary should contain motivation of the paper, data and methodology, results, conclusion and direction for future research. These articles and the textbooks will form the basis for written midterm examination. The midterm examination is a model to follow for the field examination in monetary policy and financial institutions area. In each week, the students will be asked to present these articles.

VIII. Lectures:

I will lecture on the materials taken primarily from the Greenbaum and Thakor book, and secondarily from the Freixas and Rochet book. My lecture will mingle with students’ presentation. After I assign you an article to read and present, you will be prepared to do it in class anytime I call your name. During our class time, I enjoy bringing current events relevant to our course materials and expect the class to participate in the discussion.

1. Background
Introduction to theoretical concepts
Freixas and Rochet, Chapter 1
Greenbaum and Thakor, Chapter 1

2. The Nature of Financial Intermediation

Why are there Intermediaries? Functions of Intermediaries
Approaches to the theory of Intermediation Intermediaries and Functions of the Financial System The Evolution of Financial Systems and the role of Banks Evidence of Bank’s uniqueness

Greenbaum and Thakor, Chapters 2 and 3 Freixas and Rochet, Chapters 1 and 2

3. Major Risks faced by banks

Interest Rate Risk Market Risk Credit Risk Liquidity Risk
4. Lender Borrower Relationship

Nature of Lending
Decomposition of Lending Function
Structure of Loan Agreements
Information Problems-Credit analysis and credit information
Loan Pricing- Theory and Evidence

Freixas and Rochet, Chapter 4
Greenbaum and Thakor, Chapter 5

5. Further Issues in Bank Lending and Credit Channels

Credit Rationing
Long-Term Bank Borrower Relationship
Default and Restructuring

Freixas and Rochet, Chapter 5
Greenbaum and Thakor, Chapter 6 and Chapter 7

6. Off-Balance Banking and Securitization

Greenbaum and Thakor, Chapter 8 and 9

7. Bank Regulation and Deposit Contract

Greenbaum and Thakor, Chapter 10, 11 and 12

8. Managing Risk in the Banking Firm

Default Risk
Liquidity Risk
Market Risk

Freixas and Rochet, Chapter 8 and 12
Greenbaum and Thakor, Chapter 13

9. Corporate Control and Governance

Greenbaum and Thakor, Chapter 14 and 15

10. The Theory of Banking Firm and Banking Competition

What do banks produce?
Industrial organization to the theory of banking
Models of banking competition
Empirical Evidence
Freixas and Rochet, Chapter 3

11. Bank Runs
Deposit and Liquidity Insurance
Stability of Fractional Banking System and Alternatives
Efficiency Bank Runs
Freixas and Rochet, Chapter 7

12. Macro-economic Consequences of Financial Imperfections
Theory of Financial Stability
Transmission Channel of Monetary Policy
Freixas and Rochet, Chapter 6

IX. Grading Policy:
Assignments of letter grades will be given at the end of the semester on the basis of cumulative points earned on take-home final examination, class participation, article presentation, homework and research paper.

X. Paper Sources:
2015 FMA Conference
http://www.fma.org/Orlando/OrlandoProgram.htm
2014 FMA Conference
http://www.fma.org/Nashville/NashProgram.htm
My Articles in Google Scholar, Research Gates, and Ideas
https://scholar.google.com/citations?user=gKc8ZJMAAAAJ&hl=en
https://www.researchgate.net/profile/M_Kabir_Hassan
https://ideas.repec.org/f/pha425.html

XI. Research Paper and Presentation Topics
A tentative list is given below. We will come up with new ideas and topics as we progress through the semester.
1. International Bank Mergers and Acquisitions
2. Financial Development and Economic Growth
3. Privatization and Stock Market Development
4. Efficiency Studies in the Financial Institutions and Markets
5. Islamic Finance
6. Venture Capital and Bank Financing
7. Bank Examination and Security Markets
8. Financial Liberalization and Savings
9. Emerging Equity Markets
10. Corporate Governance and Control in Banking
11. Regulation in the Financial Services Industry
12. Monetary Transmission Mechanism
13. Sovereign Wealth Funds
14. Financial Crisis
XII. Journal Articles, Book Chapters and Papers

**REQUIRE READINGS:**

**Annual Review of Financial Economics**


**Journal of Economic Surveys**

13. CANTILLON AND HUME ON MONEY AND BANKING: THE FOUNDATIONS OF TWO THEORETICAL TRADITIONS
Laurent Le Maux
Journal of Economic Surveys

14. DID INEQUALITY CAUSE THE U.S. FINANCIAL CRISIS?
Till van Treeck†
Journal of Economic Surveys
15. EVALUATING MACROECONOMIC FORECASTS: A CONCISE REVIEW OF SOME RECENT DEVELOPMENTS
Philip Hans Franses and Michael McAleer and Rianne Legerstee
Journal of Economic Surveys
Volume 28, Issue 2, pages 195–208, April 2014

16. THE CONTINUOUS WAVELET TRANSFORM: MOVING BEYOND UNI- AND BIVARIATE ANALYSIS†
Luís Aguiar-Conraria1 and Maria Joana Soares
Journal of Economic Surveys
Volume 28, Issue 2, pages 344–375, April 2014

17. EXTREME VALUE THEORY IN FINANCE: A SURVEY
Marco Rocco
Journal of Economic Surveys
Volume 28, Issue 1, pages 82–108, February 2014

18. CO-INTEGRATING VAR MODELS AND ECONOMIC POLICY
Francesco Carlucci and Francesco Montaruli
Journal of Economic Surveys
Volume 28, Issue 1, pages 68–81, February 2014

19. A CRITICAL REVIEW OF CONTAGION RISK IN BANKING
Augusto Hasman
Journal of Economic Surveys

20. RECENT DEVELOPMENTS IN QUANTITATIVE MODELS OF SOVEREIGN DEFAULT
Nikolai Stähler
Journal of Economic Surveys
Volume 27, Issue 4, pages 605–633, September 2013

21. MACROPRUDENTIAL POLICY – A LITERATURE REVIEW
Gabriele Galati1 and Richhild Moessner
Journal of Economic Surveys

22. FINANCIAL LIBERALIZATION IN SUB-SAHARAN AFRICA: WHAT DO WE KNOW?
Babajide Fowowe
Journal of Economic Surveys
Volume 27, Issue 1, pages 1–37, February 2013

23. TEN THINGS WE SHOULD KNOW ABOUT TIME SERIES
Michael McAleer and Les Oxley
Journal of Economic Surveys
Volume 25, Issue 1, pages 185–188, February 2011
24. THE CLIOMETRICS OF INTERNATIONAL MIGRATION: A SURVEY
Timothy J. Hatton
Journal of Economic Surveys
Volume 24, Issue 5, pages 941–969, December 2010

25. INFLATION AND CENTRAL BANK INDEPENDENCE: A META-REGRESSION ANALYSIS
Jeroen Klomp and Jakob De Haan
Journal of Economic Surveys
Volume 24, Issue 4, pages 593–621, September 2010

26. PURCHASING POWER PARITY IN LESS-DEVELOPED AND TRANSITION ECONOMIES: A REVIEW PAPER
Mohsen Bahmani-Oskooee and Scott W. Hegerty
Journal of Economic Surveys

27. THE BENEFITS AND COSTS OF MONETARY UNION IN SOUTHERN AFRICA: A CRITICAL SURVEY OF THE LITERATURE
George S. Tavlas
Journal of Economic Surveys
Volume 23, Issue 1, pages 1–43, February 2009

28. A SURVEY OF RECENT DEVELOPMENTS IN THE LITERATURE OF FINANCE AND GROWTH
James B. Ang
Journal of Economic Surveys

29. A THEORETICAL AND PRACTICAL PERSPECTIVE ON THE EQUITY RISK PREMIUM
Roelof Salomons
Journal of Economic Surveys

Classic Papers


SUPPLEMENTARY READINGS
JOURNAL OF BANKING AND FINANCE


2. Global Financial Stability: Resilience of Markets and Institutions


126. Jens Grunert, Lars Norden, Martin Weber, “The role of non-financial factors in internal credit


4. **Executive Compensation**


147. Duan, J.C., Jason Wei, J., “Executive stock options and incentive effects due to systematic risk”, Journal of Banking and Finance, Volume 29, Issue 5, May 2005


5. Sovereign Risk: Lessons from the European Financial Market Integration


