PhD Banking Course Syllabus

Topics in Banking

COURSE COORDINATOR
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Phong is a Senior Lecturer with the Research School of Finance, Actuarial Studies and Statistics. His research interests are banking, political economy, corporate finance and applied microeconomics. He is a member of the American Economic Association, American Finance Association, Vietnamese Finance Association, European Finance Association, Financial Research Network, and Economic Society of Australia. Phong is the FIRN program chair for the Banking and Financial Stability Research Group meetings.

COURSE DESCRIPTION
The course will cover fundamental theoretical and empirical issues before examining modern banking research in a select number of topics. Potential topics to be covered include: the role and specialness of banks (liquidity creation, monitoring and the real economy); bank regulation (deposit insurance, capital regulation, monetary policy) and performance; risk management and securitization; and the political economy of banking.

COURSE OBJECTIVES
The course is a primer on banking aimed at motivating and preparing students to do high quality research in banking with the potential to be published in leading finance and economics journals.

COURSE VENUE
The University of Adelaide
Ligertwood 216 Teaching Room, Via Gate 23, North Terrace Adelaide
18-22 September, 2017

STUDENT BACKGROUNDS & COURSE PRE-REQUISITE KNOWLEDGE
It is assumed students have a working knowledge of microeconomics, microeconometrics and intermediate mathematics (calculus and algebra).

IMPORTANT: I want to make this course as useful as possible. To help me do this, I need a better understanding of the academic backgrounds of participants. Accordingly, can students please email me a copy of their CV and a few sentences outlining their broad research agenda (i.e. empirical/theory, particular focus etc.)?

COURSE TIMETABLE and CONTENT

Each day will comprise of lectures and in-class discussion from 9am till 1pm (with a break in the middle for coffee). Afternoons are devoted to study time. Below is an approximate list of topics we will aim to get through. See below for a detailed reading list.

Day 1: Monday 18 Sep, 9am-1pm	Monitoring, information production and credit risk
Day 2: Tuesday 19 Sep, 9am-1pm	Liquidity creation, liquidity risk and deposit insurance
Day 3: Wednesday 20 Sep, 9am-1pm	Moral hazard, competition and bank risk
Day 4: Thursday 21 Sep, 9am-1pm	Capital regulation and regulatory arbitrage Securitization and shadow banking
Day 5: Friday 22 Sep, 9am-1pm	Political economy of banking and regulation

ASSESSMENT

Below is a suggestive guide to what the assessment might look like, but it is subject to change depending on the final class size. Details will be discussed in class.

25% Referee report due Friday 22 September

25% Student presentation on Friday 22 September

50% Research proposal on a banking topic due on Friday 13 October (3 weeks after the conclusion of class)

FIRN COURSES GRADING POLICY

A standardised grading system has been implemented across all FIRN endorsed PhD courses and applies to ALL PhD students undertaking the course. Course presenters are asked to calculate final assessment grades using a percentage basis which can then be converted to a grading of 1-7 as follows:

7	***– 85% +***	***– Pass with High Distinction/H1 Honours***
6	***– 75-84%***	***– Pass with Distinction/H2 Honours***
5	***– 65-74%***	***– Pass with Credit/H3 Honours***
4	***– 50-64%***	***– Pass at PhD level***
3	***– <50%***	***– Pass at Masters level***
2		***– Fail - did not complete all assessments***
1		***– Fail - did not complete course***

LIST OF TEXTS AND READINGS

Below is a list of readings for the course. We will NOT cover all the papers! We will focus on a few (about 3) in each topic, the others will be assigned as referee reports, presentation papers or simply for your information.

Monitoring, information production and credit risk

Agarwal, S. and R. Hauswald, 2010, "Distance and private information in lending," *Review of Financial Studies* 23, 2757-2788

Cerqueiro, G., S. Ongena and K. Roszbach, 2016, "Collateralization, bank loan rates and monitoring," *Journal of Finance* 71, 1295-1322

Datta, S., M. Iskandar-Datta, and A. Patel, 1999, "Bank monitoring and the pricing of corporate public debt," Journal of Financial Economics 51, 435-449.

Degryse, H., and S. Ongena, 2005, "Distance, lending relationships and competition," *Journal of Finance* 60, 231-266

Diamond, D., 1984, "Financial intermediation and delegated monitoring," *Review of Economic Studies,* 51, 393-414.

Diamond, D., 1991, "Monitoring and reputation: The choice between bank loans and directly placed debt," *Journal of Political Economy* 99, 689-721

Hollander, S. and A. Verriest, 2016, "Bridging the gap: the design of bank loan contracts and distance," *Journal of Financial Economics* 119, 399-419

Qian, J. Q. J., P. E. Strahan, and Z. Yang, 2015, "The impact of incentives and communication costs on information production and use: Evidence from bank lending," *Journal of Finance* 70

Liquidity creation, liquidity risk and deposit insurance

Acharya, V. V., and N. Mora, 2015, "A crisis of banks as liquidity providers," *Journal of Finance* 70, 1-43

Bryant, J., 1983, "A model of reserves, bank runs and deposit insurance," *Journal of Banking and Finance* 4, 335-344

Cornett, M. M., McNutt, J. J., Strahan, P. E., Tehranian, H., 2011, "Liquidity risk management and credit supply in the financial crisis," *Journal of Financial Economics* 101, 297-312

Diamond, D. and P. Dybvig, 1983, "Bank Runs, Deposit Insurance, and Liquidity," *Journal of Political Economy,* 91, (3), 401-419.

Gatev, E. and P. E. Strahan, 2006, “Banks’ advantage in hedging liquidity risk: theory and evidence from the commercial paper market,” *Journal of Finance*

Gatev, E., T. Schuermann and P. E. Strahan, 2009, “Managing bank liquidity risk: How deposit-loan synergies vary with market conditions,” Review of Financial Studies 22, 995-1020

Kashyap, A. K., R. Rajan, and J. C. Stein, 2002, “Banks as liquidity providers: An explanation for the coexistence of lending and deposit taking,” *Journal of Finance* 57, 33-73

Pennacchi, G., 2006, “Deposit insurance, bank regulation and financial system risks,” *Journal of Monetary Economics* 53, 1-30.

Moral hazard, competition and bank risk

Atkin, B., L. Li, J. Ng, and T. O. Rusticcus, 2016, “Bank competition and financial stability: Evidence from the financial crisis,” *Journal of Financial and Quantitative Analysis* 51, 1-28.

Allen, F., and D. Gale, 2000, *Comparing Financial Systems*, MIT Press, U.S.

Allen, F., and D. Gale, 2004, “Competition and financial stability,” *Journal of Money, Credit and Banking* 36, 453-480

Anginer, D., Demirguc-Kunt, A., and M. Zhu, 2014, “How does deposit insurance affect bank risk taking? Evidence from the recent crisis,” *Journal of Banking and Finance* 48, 312-321

Boyd, J H., and G. De Nicolo, 2006, “The theory of bank risk taking and competition revisited,” *Journal of Finance* 60, 1329-1343

Demirguc-Kunt, A., and E. Detragiache, 2002, “Does deposit insurance increase banking stability? An empirical investigation,” *Journal of Monetary Economics* 49, 1373-1406

Demirguc-Kunt, A., and H. Huizinga, 2004, “Market discipline and deposit insurance,” *Journal of Monetary Economics* 51, 375-399

Gan, J., 2004, “Banking market structure and financial stability: Evidence from the Texas real estate crisis in the 1980s,” *Journal of Financial Economics* 73, 567-601

Gorton, G., and R. Rosen, “Corporate control, portfolio choice, and the decline of banking,” *Journal of Finance* 50, 1377-1420

Keeley, M. C., 1990, “Deposit insurance, risk and market power in banking,” *American Economic Review* 80, 1183-1200

Martinez-Miera, D., and R. Repullo, 2010, “Does competition reduce the risk of bank failure?” *Review of Financial Studies* 23, 3638-3664

Capital regulation and regulatory arbitrage

Acharya, V, 2003, “Is the international of convergence of capital adequacy regulation desirable?” *Journal of Finance* 58, 2745-2782.

Begley, T. A., A. Purnanandam, K. Zheng, 2017, “The strategic underreporting of bank risk,” *Review of Financial Studies* forthcoming

Christiano, L., and D. Ikeda, 2016, “Bank leverage and social welfare,” *American Economic Review P&P* 106, 560-564.

Diamond, D., and R. Rajan, 2000, “A theory of bank capital,” *Journal of Finance* 55, 2431-2465

Gorton, G. and A. Winton, 2017, “Liquidity provision, bank capital and the macroeconomy,” *Journal of Money, Credit and Banking* 49, 5-37.

Houston, J. F., C. Lin, and Y. Ma, 2012, “Regulatory arbitrage and international bank flows,” *Journal of Finance* 67, 1845-1895

Karolyi, G. A., and A. G. Taboada, 2015, “Regulatory arbitrage and cross-border bank acquisitions,” *Journal of Finance* 70, 2395-2450

Koch, C., G., Richardson, and P. Van Horn, 2016, “Bank leverage and regulatory regimes: Evidence from the great depression and great recession,” *American Economic Review P&P* 106, 538-542.

Ongena, S., A. A. Popov and G. F. Udell, 2013, "When the cat’s away the mice will play: Does regulation at home affect bank risk-taking abroad?” *Journal of Financial Economics* 81, 727-750.

Santos, J. A. C., 2001, “Bank capital regulation in contemporary banking theory: A review of the literature,” *Financial Markets, Institutions and Instruments* 10, 41-84

Securitization and shadow banking

Acharya, V. V., P., Schnabl, and G. Suarez, 2013, “Securitization without risk transfer,” *Journal of Financial Economics* 107, 515-536.

Gennaioli, N., A. Shleifer, and R. W. Vishny, 2013, “A model of shadow banking,” *Journal of Finance* 68, 1331-1363

Gorton, G., and A. Metric, 2012, “Securitized banking and the run on repo,” *Journal of Financial Economics* 104, 425-451.

Keys, B. J., T. Mukherjee, A. Seru and V. Vig, 2010, “Did Securitization Lead to Lax Screening: Evidence from Subprime Loans,” *The Quarterly Journal of Economics* 125, 307-362.

Keys, B. J., A. Seru and V. Vig, 2012, “Lender Screening and the Role of Securitization: Evidence from Prime and Subprime Mortgage Markets,” *Review of Financial Studies* 25,

Plantin, G., 2015, “Shadow banking and bank capital regulation,” *Review of Financial Studies* 28, 146-175.

Wang, Y. and H. Xia, 2014, “Do Lenders Still Monitor When They Can Securitize Loans?” *Review of Financial Studies* 27, 2354-2391.

Political economy of banking and regulation

Agarwal, S., G., Amromin, I. Ben-David, S. Dinc, 2017, “The politics of foreclosures,” Working Paper.

Faccio, M., R. Masulis and J. McConnell, 2006, “Political Connections and Government Bailouts,” *Journal of Finance* 61, 2597-2635.

Claessens, S., E. Feijen, L. Laeven, 2008, “Political connections and preferential access to finance: The role of campaign contributions,” *Journal of Financial Economics* 88, 554-580.

Dinc, S., 2005, “Politicians and Banks: Political Influences on Government-Owned Banks in Emerging Markets,” 2005, *Journal of Financial Economics* 77, 453-479.

Dinc, S. and C. Brown, 2011, “Too Many To Fail? Evidence of Regulatory Reluctance in Bank Failures when the Banking Sector is Weak,” *Review of Financial Studies* 24.

Dinc, S. and C. Brown 2005. The Politics of Bank Failures: Evidence from Emerging Markets, *Quarterly Journal of Economics*, 120, 1413-1444.

Dinc, S. and N. Gupta, 2011. The Decision to Privatize: Finance and Politics, 2011, *Journal of Finance***,** 66 (1), 241-269.

Duchin, R. and D. Sosyura, 2014, Safer ratios, riskier portfolios: Banks' response to government aid, *Journal of Financial Economics* 113, 1-28.

Duchin, R. and D. Sosyura, 2012, Politics of government investment, *Journal of Financial Economics* 106, 24-48.

Halling, M., P. Pichler, and A. Stomper, 2015. The Politics of Related Lending, *Journal of Financial and Quantitative Analysis*. (forthcoming).

Houston, J. F., L. Jiang, C. Lin, and Y. Ma, 2014, Political connections and the cost of bank loans, *Journal of Accounting Research* 52, 193-243.

Liu, W. and P. T. H. Ngo, 2014, “Elections, political competition and bank failure,” *Journal of Financial Economics* 112, 251-268

STATEMENT ON PLAGIARISM
Plagiarism is a broad term referring to the practice of appropriating someone else's ideas or work and presenting them as your own without acknowledgment. Plagiarism is literary or intellectual theft. It can take a number of forms, including:

- copying the work of another student, whether that student is in the same class, from an earlier year of the same course, or from another tertiary institution altogether;
- copying any section, no matter how brief, from a book, journal, article or other written source, without duly acknowledging it as a quotation;
- copying any map, diagram or table of figures without duly acknowledging the source;
- para-phrasing or otherwise using the ideas of another author without duly acknowledging the source.

Whatever the form, plagiarism is unacceptable both academically and professionally. By plagiarising you are both stealing the work of another person and cheating by representing it as your own. Any instances of plagiarism can therefore be expected to draw severe penalties.

Cheating means to defraud or swindle. Students who seek to gain an advantage by unfair means such as copying another student's work, or in any other way misleading a lecturer about their knowledge or ability or the amount of work they have done, are guilty of cheating. Students who condone plagiarism by allowing their work to be copied will also be subject to severe disciplinary action.