COURSE TITLE :

PhD course in Banking and Stability

COURSE COORDINATOR:

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COURSE DATE AND VENUE:

July 9-13, 2018
University of Sydney Business School

COURSE OBJECTIVES:

The primary course objective is to prepare the students to succeed as researchers in banking, intermediation and finance. To accomplish this objective, there are two main dimensions to the course: (1) to familiarize the students with the key areas of empirical research in banking that are currently popular in the literature. (2) to better understand the corporate finance of banking. Outcome expectations: (1) you will have a good understanding of the important issues in these areas and should be able to apply concepts from banking and corporate finance in developing new research questions. (2) you will learn to understand and critique research designs and causal claims. The goal is to sharpen your skills in empirical research in banking. Focus would be always on the research question, empirical design, interpretation of coefficients, identifying causal mechanisms, test for robustness and sensitivity.

The overall objective is to motivate and prepare students to do high quality research in banking that can be published in the leading finance and economics journals. Students from Finance, Accounting and Economics areas are encouraged to enroll in this class. It would be an empirical banking course.

If you want to do your own research in Empirical Banking, this course will be an introduction to some of the recent and important themes that will impact your own academic research in this field. If you want to do research in other fields, the course will help you better understand research related to your own or you would be able to ask your research question through the lenses of financial institutions.

I might not be able to cover all the topics but I am still interested to share with you what I have in mind to teach you, if I had a full-semester or what we can continue to discuss and study beyond the class-time.

As I have mentioned, this seminar provides an exposure to recent research on a number of interesting topics in banking and more generally financial intermediation. During this semester, the topics covered will be grouped under the following topics:

(1) Corporate Control, Relationship and Bank Lending, (2) Banking and Innovation, (3) Borrower Corporate Governance Effects on Loan and Bond Contracting, (4) Credit Risk, Covenants, and Syndicated Loans, (5) Securitization (6) Political Connections in Banking, (7) International Banking and Lending Activities, (8) Bank Governance and Performance (RiskReturn), (9) Systemic Risk / Interconnectedness / Contagion, and (10) Financial Crisis and Bank Performance.

I will start the morning session on a topic or two and lecture first in general terms on the topic and then discuss specifically selecting a few of the papers from each of the sections.

Based on the number of students, I will assign a student for presentation and detailed discussion in class on a paper from that section.

In the afternoon sessions, we will continue to do the same as we plan to do for respective morning sessions, however, the main purpose of the afternoon session would be to find ways to develop new research questions. These questions could be based on each student's own work and how that can lead to different questions that involve banks or financial intermediaries. Or we brain storm on the topic of discussions that day (or any day) in developing new research questions. I will take the lead and create a group for each session who would co-lead with me in asking questions on the topic(s) of the day.

Additionally, I plan to keep a couple of data set ready and if/when needed, I am willing to share them with students. We will work with this data set as we progress in the class and check out different hypotheses in class as we discuss research questions. My goal would be to create/develop questions in class and immediately follow-up with data via students who are in the forefront of the given questions in discussion. They could consider building on it further if she/he decides to do so in the future. If a student decides to partner with other fellow students, it is up to each individual's own choice. My goal is to help students to write future banking papers on their own.

Important Note to ALL PARTICIPANTS: Each student registered must send me an e-mail with his/her CV and an outline of their research project(s). This is compulsory/mandatory. Advanced students and staff are encouraged to send their completed papers. My goal is to better understand each student's background and see ways I can encourage them to attempt to start a banking paper (if they have an interest) or simply provide links on how their topics/ subject matters relate to the banking literature. I want everyone to be able to discuss a banking relevance associated with their research topics irrespective of the area or topics they are working on or plan to work in the future. My goal is to make it an active hands-on banking seminar class.

ASSESSMENT AND GRADING:

Final grades will depend on the quality of class participation and paper presentation, as well as a short class paper - that is developed either from a new idea or based on the reading topic and that seeks to review, synthesize and extend research on financial intermediation. Details will be discussed in class.

FIRN has established a standardised grading system across all its PhD courses - course presenters will calculate assessment grades on a percentage basis which can then be converted to a 1-7 grade as follows. PhD Students who do not submit all assessment pieces will not receive a Pass in a FIRN PhD course:

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
1 – 3 <50% – Did not complete/Fail

BACKGROUND READING:

Book: Friexas and Rochet (2008), *The Microeconomics of Banking,* Second Edition, Cambridge Mass., MIT Press.

1. Papers:

1. O'Hara, M., 1983, "A Dynamic Theory of the Banking Firm," *Journal of Finance* 38, (1), 127-140.
2. Boyd, J. and E. Prescott, 1986, "Financial Intermediary-Coalitions," *Journal of Economic Theory*, 38, 211-232.
3. John, K., A. Saunders and L. Senbet, 2000. "A Theory of Bank Regulation and Management Compensation," *Review of Financial Studies*, Spring 13, (1).
4. Diamond, D., 1984, "Financial Intermediation and Delegated Monitoring," *Review of Economic Studies,* 51, 393-414.
5. Diamond, D. and P. Dybvig, 1983, "Bank Runs, Deposit Insurance, and Liquidity," *Journal of Political Economy*, 91, (3), 401-419.
6. Allen, F. and D. Gale, 1998, "Optimal Financial Crises," *Journal of Finance,* 53, (4), 1245-1284.
7. John, K., S. DeMasi and A. Paci "Corporate Governance in Banks", Corporate Governance: An International Review, May 2016, 24(3): 303-321 **(Survey).**
8. Bhattacharya, S. and A. Thakor, 1994, "Contemporary Banking Theory," *Journal of Financial Intermediation* 3, 95-133**. (Survey)**
9. S. I. Greenbaum, 1996, "Twenty-Five Years of Banking Research", *Financial Management*, Summer, 86-92**. (Survey).**

10. Boot, A., 2000, “Relationship Banking: What Do We Know?” *Journal of Financial Intermediation*, vol. 9, 7-25**. (Survey)**
11. Tobias Adrian and Adam B. Ashcraft, 2013, “Shadow Banking: A Review of the Literature”, *FRB of New York Staff Report No. 580* (**Survey**).
12. Dimitrios Bisias , Mark D. Flood , Andrew W. Lo and Stavros Valavanis, 2012, “ A Survey of Systemic Risk Analytics”, U.S. Department of Treasury, Office of Financial Research No. 0001 **(Survey).**
13. Walmir Silva, Herbert Kimura, and Vinicius A. Sobereiro, 2017, “An analysis of the literature on systemic financial risk: A *survey*,” *Journal* of *Financial Stability*, 28, 91-114.
14. Patrick Bolton Martin Oehmke,2016. Bank Resolution and the Structure of Global Banks, Working paper, March 3, 2016.
15. Murfin, J. 2012. The Supply-Side Determinants of Loan Contract Strictness. *The Journal of Finance*, 67(5), 1565-1601.
16. Isil Erel; Stewart C. Myers and James A. Read Jr. 2015. A theory of risk capital, *Journal of Financial Economics*, Volume 118, Issue 3, Pages 620-635.

2. Systemic Risk/Interconnectedness/Contagion

2.1 Acemoglu, Daron, Asuman Ozdaglar, and Alireza Tahbaz-Salehi. 2015. “Systemic Risk and Stability in Financial Networks.” *American Economic Review*, 105, 564-608.

2.2 De Hass, Ralph and Neeltje van Horen, 2012, “International Shock, Transmission after the Lehman Brothers Collapse: Evidence from Syndicated Lending,” *American Economic Review* 102 (3), 231-237.

2.3 Allen, Linda, Tural Bali and Yi Tang 2012. Does Does Systemic Risk in the Financial Sector Predict Future Economic Downturns? *Review of Financial Studies*, 25, 3000-3036.

2.4 De Hass, Ralph and Neeltje van Horen, 2012, “International Shock, Transmission after the Lehman Brothers Collapse: Evidence from Syndicated Lending,” American Economic Review 102 (3), 231-237.

2.5 Kroszner, Randall S., Luc Laeven and Daniela Klingebiel, 2007, "Banking crises, Financial Dependence, and Growth", *Journal of Financial Economics* 84, 187–228.

3. Creditor Rights and Bankruptcy as Corporate Control Mechanisms

3.1 Cerqueiro, Geraldo, Steven Ongena and Kasper Roszbach, 2015, Collateralization, Bank Loan Rates and Monitoring, *The Journal of Finance*, Volume 71, Issue 3, June 2016, Pages 1295–1322.

3.2 Ertan, Aytekin, Maria Loumioti, and Regina Wittenberg-Moerman, 2017. Enhancing Loan Quality through Transparency: Evidence from the European Central Bank Loan Level Reporting Initiative. *Journal of Accounting Research*, 2017. , Vol. 55, No. 4, 877-918.

3.3 Rodano, Giacomo, Nicolas Serrano-Velarde and Emanuele Tarantino, 2016. Bankruptcy Law and Bank Financing, *Journal of Financial Economics* Volume 120, Issue 2, May 2016, Pages 363-382.

3.4 Santikian, Lori, 2014,"The ties that bind: Bank relationships and small business lending," *Journal of Financial Intermediation*, 23(2), 177-213.

3.5 Uchida, Hirofumi, Gregory F. Udell, and Nobuyoshi Yamori, 2012, "Loan officers and relationship lending to SMEs," *Journal of Financial Intermediation* 21(1), 97-122.

4. Corporate Control, Relationship and Bank Lending

4.1 Gilje, Erik and Loutskina, Elena and Strahan, Philip E., 2016. Exporting Liquidity: Branch Banking and Financial Integration. *The Journal of Finance* (JF), Volume 71, Issue 3, June 2016, Pages 1159–1184

4.2 Radhakrishnan Gopalan, Gregory F. Udell, and Vijay Yerramilli, 2011. Why Do Firms Form New Banking Relationships? *Journal of Financial and Quantitative Analysis* 46, 1335-1365.

4.3 Fulghieri, P., G. Strobl, and H. Xia, 2014, The Economics of Solicited and Unsolicited Credit Ratings, *The Review of Financial Studies*, Volume 27, Issue 2, Pages 484–518.

4.4 Drucker, Steven and Manju Puri, 2009, "On Loan Sales, Loan Contracting, and Lending Relationships", *Review of Financial Studies* 22(7), 2835-2872

4.5 Hellmann, Thomas, Laura Lindsey, and Manju Puri, 2008, "Building Relationships Early: Banks in Venture Capital", *Review of Financial Studies* 21(2), 513-541.

5. ***Banking and Innovation***

5.1 Cornaggia, J., Tian, X. and Wolfe, B., 2015. Does Banking Competition Affect Corporate Innovation? *Journal of Financial Economics*, 115(1), 189-209.

5.2 Nanda, R., & Nicholas, T., 2014. Did bank distress stifle innovation during the Great Depression?. *Journal of Financial Economics*, 114(2), 273-292.

5.3 Plumlee, M., Xie, Y., Yan, M., & Yu, J. J, 2015. Bank loan spread and private information: pending approval patents. *Review of Accounting Studies*, 20(2), 593-638.

5.4 Chava, S., Oettl, A., Subramanian, A., and Subramanian, K., 2013, "Banking Deregulation and Innovation," *Journal of Financial Economics*, 109(3), 759-774.

5.5 Acharya, V. and K. Subramanian, 2009. Bankruptcy Codes and Innovation. *Review of Financial Studies* 22, 4949-4988.

6. ***Borrower Corporate Governance Effects on Loan and Bond Contracting***

6.1 Levine, Ross and Lin, Chen and Xie, Wensi, 2016. Spare Tire? Stock Markets, Banking Crises, and Economic Recoveries. Journal of Financial Economics (JFE), Elsevier, vol. 120(1), pages 81-101.

6.2 Lin, C., Y. Ma, P. Malatesta, Y. Xuan, 2013, "Corporate Ownership Structure and the Choice between Bank Debt and Public Debt," *Journal of Financial Economics* 109, 517-534.

6.3 Lin, C., M. Officer, R. Wang, H. Zou, 2013, "Directors' and Officers' Liability Insurance and Loan Spreads," *Journal of Financial Economics*, 110, 37-60.

6.4 Ferreira, A. and Matos, P. 2012, "Universal Banks and Corporate Control: Evidence from the Global Syndicated Loan Market," 2012. *Review of Financial Studies*, 25, 2703-2744.

6.5 Francis, B., Hasan, I., John, K., and Waisman, M., 2010. The Effect of State Antitakeover Laws on the Firm's Bondholders. *Journal of Financial Economics*, 96(1): 127-154.

7. ***Bank Governance and Performance (Risk-Return)***

7.1 Ongena, S., Alexander, P., Udell, G., 2013. "When the Cat is Away, the Mice will Play: Does regulation at home affect bank risk-taking abroad? Journal of Financial Economics 108, 727-750.

7.2 Cole, Shawn Allen and Kanz, Martin and Klapper, Leora F., 2015. Incentivizing Calculated Risk-Taking: Evidence from an Experiment with Commercial Bank Loan Officers. *The Journal of Finance* (JF) Volume 70, Issue 2, April, Pages 537–575.

7.3 Giannetti, Mariassunta and Luc Laeven, 2012, The Flight Home Effect: Evidence from the Syndicated Loan Market During Financial Crises," Journal of Financial Economics 104 (1).

7.4 Ellul, Andrew, and Vijay Yerramilli (2013), "Stronger Risk Controls, Lower Risk: Evidence from U.S. Bank Holding Companies," *Journal of Finance*, 68(5) October, 1757-1803.

7.5 Laeven, L., and Levine, R., 2007. Is there a diversification discount in financial conglomerates? *Journal of Financial Economics* 85, 331-367.

8. ***Political Connections and Banking***

8.1 Halling, Michael, Pegaret Pichler, and Alex Stomper, 2016. The Politics of Related Lending, *Journal of Financial and Quantitative Analysis*. Volume 51, Issue 1, February 2016, pp. 333-35

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

8.3 Houston, Joel and Liangliang Jia, Chen Lin and Yue Ma, Political Connections and the Cost of Bank Loans, *Journal of Accounting Research*, 52 (1), 193-243.

8.4 Dinc, Serdar and Craig Brown. 2011. Too Many To Fail? Evidence of Regulatory Reluctance in Bank Failures when the Banking Sector is Weak, *Review of Financial Studies*, 24(4).

8.5 Dinc, Serdar and Craig Brown. 2005. The Politics of Bank Failures: Evidence from Emerging Markets, *Quarterly Journal of Economics*, 120 (4), 1413-1444.

9. ***International Lending***

9.1 Karolyi, Andrew and Alvaro, Toboada. 2015. Regulatory Arbitrage and Cross-Border Bank Acquisitions, *Journal of Finance*, Volume 70, Issue 6, December 2015, Pages 2395–2450

9.2 Udell, Gregory F. and Alex Popov, 2012. Cross-Border Banking, Credit Access and the Financial Crisis," *Journal of International Economics*, 87(1), 147-161.

9.3 Jayaraman, Sudarshan and Kothari, S.P., 2016. Cross-Border Financing by the Industrial Sector Increases Competition in the Domestic Banking Sector. *Accounting Review*, March 2016, Vol. 91, No. 2, pp. 535-558.

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

9.5 Cetorelli, Nicola and Linda S. Goldberg, 2012, "Follow the Money: Quantifying Domestic Effects of Foreign Bank Shocks in the Great Recession," *American Economic Review*, 102 (3).

10. ***Securitization***

10.1 Keys, Benjamin, Tanmoy Mukherjee, Amit Seru and Vikrant Vig, 2010, Did Securitization Lead to Lax Screening: Evidence from Subprime Loans," *The Quarterly Journal of Economics* 125(1), 307-362.

10.2 Wang, Yihui and Han Xia, 2014, "Do Lenders Still Monitor When They Can Securitize Loans?," Review of Financial Studies 27 (8): 2354-2391.

10.3 Demiroglu, Cem and James, Christopher M., 2015. Bank Loans and Troubled Debt Restructurings (May 13, 2015). *Journal of Financial Economics* (JFE), 118, 1, 192-210.

10.4 Acharya, V. V., Schnabl, P., & Suarez, G., 2013, Securitization without risk transfer. *Journal of Financial Economics*, 107(3), 515-536.

10.5 Lemmon, M., Liu, L. X., Mao, M. Q., & Nini, G., 2014, Securitization and capital structure in nonfinancial firms: An empirical investigation. *The Journal of Finance*, 69(4), 1787-1825.

11. Separating Supply and Demand Effects in Banking

11.1 Iyer, Rajkamal and Puri, Manju and Ryan, Nicholas, 2016. A Tale of Two Runs: Depositor Responses to Bank Solvency Risk. *The Journal of Finance (JF)*, Volume 71, Issue 6, December 2016, Pages 2687–2726.

11.2 Qian, Jun and Strahan, Philip E. and Yang, Zhishu, 2015. The Impact of Incentives and Communication Costs on Information Production and Use: Evidence from Bank Lending. *The Journal of Finance*, Volume 70, Issue 4, August 2015, Pages 1457–1493.

11.3 Philip E. Strahan, Are concentrated banks better informed than diversified ones. *Journal of Accounting & Economics* (JAE), Volume 64, Issues 2–3, November 2017, Pages 278-283.

11.4 Puri, M., J Rocholl, S Steffen. 2011. Global retail lending in the aftermath of the US financial crisis: Distinguishing between supply and demand effects, *Journal of Financial Economics* 100 (3), 556-578.

11.5 Laeven, L., and Levine, R., 2009. Bank governance, regulation, and risk taking. *Journal of Financial Economics* 93, 259-275.

12. Lines of Credit

12.1 Fisman, Raymond J. and Paravisini, Daniel and Vig, Vikrant, 2017. Cultural Proximity and Loan Outcomes, *American Economic Review*, 107, 2, February, 457-92.

12.2 Sufi, A. 2009, Bank Lines of Credit in Corporate Finance: An Empirical Analysis, *Review of Financial Studies* 22(3), 1057-1088.

12.3 Jiménez, Gabriel, Steven Ongena, José-Luis Peydró and Jesús Saurina, 2014. Hazardous Times for Monetary Policy: What Do Twenty-Three Million Bank Loans Say About the Effects of Monetary Policy on Credit Risk-Taking? *Econometrica*, 82, 463-505.

12.4 Carvalho, Daniel, Miguel A. Ferreira, and Pedro Matos, 2015, Lending Relationships and the Effect of Bank Distress: Evidence from the 2007-2009 Financial Crisis, *Journal of Financial and Quantitative Analysis*.

12.5 Akins, Brian, Lynn Li, Jeffrey Ng, and Tjomme O. Rusticus 2015. Bank Competition and Financial Stability, *Journal of Financial and Quantitative Analysis.*

13. Bank Capital

13.1 Valeriya Dinger and Francesco Vallascas 2015, Do Banks Issue Equity When They Are Poorly Capitalized? *Journal of Financial and Quantitative Analysis*, 51 (5). pp. 1575-1609.

13.2 Acharya, Viral V., Hanh Le and Hyun Song Shin 2017. Bank Capital and Dividend Externalities. *Review of Financial Studies* (RFS), Volume 30, Issue 3, Pages 988-1043.

13.3 Hugonnier, Julien and Morellec, Erwan, 2017. Bank Capital, Liquid Reserves, and Insolvency Risk. *Journal of Financial Economics* (JFE), Volume 125, Issue 2, August 2017, Pages 266-285.

13.4 Jiménez, Gabriel and Ongena, Steven and Peydro , Jose-Luis and Saurina Salas, Jesus, 2017. Macroprudential Policy, Countercyclical Bank Capital Buffers and Credit Supply, *Journal of Political Economy* (JPE), Volume 125, Number 6, December 2017.

13.5 Lepetit, Laetitia, Nadia Saghi-Zedek, Amine Tarazi, 2015, Excess control rights, bank capital structure adjustments, and lending, *Journal of Financial Economics* 102, 416–431.