

# IB3J8-15 Banks and Financial Systems

**20/21**

**Department**

Warwick Business School

**Level**

Undergraduate Level 3

**Module leader**

Kebin Ma

**Credit value**

15

**Module duration**

10 weeks

**Assessment**

Multiple

**Study location**

University of Warwick main campus, Coventry

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## Description

### Introductory description

The module seeks to enhance students' understanding of why banks exist and what economic roles they play, the risks faced by banks in lending process, off-balance sheet banking, and banking regulation.

[Module web page](#)

### Module aims

The aim of the module is twofold. First of all, the module should help students to understand the economics of financial contracting - how financial frictions such as agency cost and market incompleteness shape financial contracts and institutions in banking. Then, guided by the theoretical perspectives, the discussion will cover specific issues such as the source of bank risk, risk management and some contemporaneous debates in banking regulation. The approach is mostly analytical rather than descriptive.

### Outline syllabus

This is an indicative module outline only to give an indication of the sort of topics that may be covered. Actual sessions held may differ.

An introduction to market-oriented and bank-oriented financial systems, historical development and cross-country comparisons.

An overview of banks' functions, and how banks are able to supplement financial markets.

Bank loans versus corporate bonds. Banks' advantage as inside creditors, and a discussion on the dark side of bank financing.

Banks' role in corporate liquidity provision and market making.

Deposit contract, bank runs, and deposit insurance.

Banks' role in intertemporal risk sharing, and further discussion on banks' role in asset and liability transformation (from risky to risk-free assets, and from monitored to unmonitored liabilities).

Bank risk management: credit risk, interest rate risk, liquidity risk, and market risk. Credit analysis and duration gap analysis.

Bank leverage and excessive risk-taking, financial safety net, and bank capital regulation, with a discussion on the evolution of Basel Accord.

Systemic crises, credit cycles, and the interplay between banking crisis and sovereign bond crisis.

Macro-prudential regulations.

The contemporary trend of banking: securitization, shadow banking, and the transition from retail to wholesale banking.

## **Learning outcomes**

By the end of the module, students should be able to:

- Understanding banks' role in providing intermediated financing and corporate liquidity.
- Understanding the function of bank deposits, and the intertemporal risk sharing provided by financial institutions.
- Gaining knowledge about major banking risks and the principles of bank risk management.
- Understanding risk-taking incentives in banking industry and how banking micro- and macro-prudential regulations help to maintain financial stability.
- Knowing major banking risks and the principles of bank risk management. And understanding why some risks are inevitable to banking activities.
- Understanding risk-taking incentives in banking industry and how banking micro- and macro-prudential regulations help to maintain financial stability.
- Understanding the advantages and disadvantages of bank financing.
- Understanding why some risks are inevitable to banking activities.
- Being able to critically assess contemporaneous issues in financial regulations.

## **Indicative reading list**

Arnoud Boot, Stuart Greenbaum and Anjan Thakor, Contemporary Financial Intermediation, 3rd ed. Academic Press, 2015. (publication still expected at the moment).

## **Subject specific skills**

For the purpose of bank risk management, understanding the principle of credit risk analysis, and that of duration gap analysis.

## **Transferable skills**

For the purpose of bank risk management, understanding the principle of credit risk analysis, and that of duration gap analysis.

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## Study

### Study time

| Type          | Required                     |
|---------------|------------------------------|
| Lectures      | 10 sessions of 2 hours (13%) |
| Seminars      | 9 sessions of 1 hour (6%)    |
| Private study | 47 hours (31%)               |
| Assessment    | 74 hours (49%)               |
| Total         | 150 hours                    |

### Private study description

Private Study.

## Costs

No further costs have been identified for this module.

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## Assessment

You do not need to pass all assessment components to pass the module.

### Assessment group D1

|  | Weighting | Study time |
|--|-----------|------------|
| Participation  | 10%       | 9 hours    |
| Participation in activities on a weekly basis via my.wbs |           |            |
| Online Examination                                       | 90%       | 65 hours   |
| Exam   |           |            |
| ~Platforms - AEP   |           |            |

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- Online examination: No Answerbook required

## Assessment group R

|                                 | Weighting | Study time |
|---------------------------------|-----------|------------|
| Online Examination - Resit Exam | 100%      |            |

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- Online examination: No Answerbook required

## Feedback on assessment

Feedback via My.WBS.

[Past exam papers for IB3J8](#)

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## Availability

### Pre-requisites

To take this module, you must have passed:

- Any of
  - IB235-12 Finance 1: Financial Markets
  - [IB253-15 Principles of Finance 1](#)

## Courses

This module is Optional for:

- Year 4 of UIBA-MN34 Law and Business Four Year (Qualifying Degree)