IB3J8-15 Banks and Financial Systems

23/24

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

Description

Introductory description

This module is an elective for WBS and non-WBS students.

The module aims to provide an overview of financial systems, to discuss their functions, risks and regulations.

[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.

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 fiancial systems, emphasizing their functions of fianncing and risk-sharing. An

overview of market-oriented and bank-oriented financial systems, historical development and cross-country comparisons.

Comparing Intermediated financing (such as bank loans) to direct market financing (such as corporate bonds). Discussing banks' advantage as inside creditors as well as the dark side of bank financing.

Illustrating banks' role in corporate liquidity provision and market making.

bank runs, and deposit insurance.

Discussing the financial system's function of risk sharing, with examples of deposit contract in providing liquidity insurance and pension funds in intertemporal risk sharing. Illustrating banks' role in asset and liability transformation (from risky to risk-free assets, and from monitored to unmonitored liabilities).

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

Understanding bank risks, particularly the risk of bank runs. Illustrate bank risk-taking incentives: how it relates to leverage and financial safety net. Providing an overview of systemic crises, credit cycles, and the interplay between banking crisis and sovereign bond crisis.

An introduction to bank capital regulation, with a discussion on the evolution of Basel Accord. Also discussing macro-prudential regulations that aim to mitigate systemic risks.

Learning outcomes

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

- Understand banks' role in providing intermediated financing and corporate liquidity.
- Understand the function of bank deposits, and the intertemporal risk sharing provided by financial institutions.
- Understand the advantages and disadvantages of bank financing.
- Understand why some risks are inevitable to banking activities.
- 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.
Tirole, Jean. The Theory of Corporate Finance. Princeton University Press, 2006.
Freixas, Xavier and Jean-Charles Rochet. Microeconomics of Banking 2nd ed. MIT Press, 2008.

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.

Study

Study time

Type	Required
Lectures	10 sessions of 2 hours (26%)
Seminars	9 sessions of 1 hour (12%)
Private study	48 hours (62%)
Total	77 hours

Private study description

Private Study.

Costs

No further costs have been identified for this module.

Assessment

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

Assessment group D3

	Weighting	Study time
Participation	10%	8 hours
In-person Examination	90%	65 hours

- Answerbook Pink (12 page)
- Students may use a calculator

Assessment group R2

	Weighting	Study time
In-person Examination - Resit	100%	

- Answerbook Pink (12 page)

	Weighting	Study time

- Students may use a calculator

Feedback on assessment

Feedback via My.WBS.

[Past exam papers for IB3J8](#)

Availability

Courses

This module is Optional for:

- Year 4 of UIBA-MN34 Law and Business Four Year (Qualifying Degree)
- UPHA-L1CA Undergraduate Economics, Psychology and Philosophy
  - Year 3 of L1CA Economics, Psychology and Philosophy
  - Year 3 of L1CC Economics, Psychology and Philosophy (Behavioural Economics Pathway)
  - Year 3 of L1CD Economics, Psychology and Philosophy (Economics with Philosophy Pathway)
  - Year 3 of L1CE Economics, Psychology and Philosophy (Philosophy and Psychology Pathway)
- UPHA-L1CB Undergraduate Economics, Psychology and Philosophy (with Intercalated Year)
  - Year 4 of L1CG Economics, Psychology and Philosophy (Behavioural Economics Pathway) (with Intercalated Year)
  - Year 4 of L1CH Economics, Psychology and Philosophy (Economics with Philosophy Pathway) (with Intercalated Year)
  - Year 4 of L1CJ Economics, Psychology and Philosophy (Philosophy and Psychology Pathway) (with Intercalated Year)
  - Year 4 of L1CB Economics, Psychology and Philosophy (with Intercalated Year)
  - Year 4 of L1CB Economics, Psychology and Philosophy (with Intercalated Year)
- USTA-G300 Undergraduate Master of Mathematics,Operational Research,Statistics and Economics
  - Year 3 of G300 Mathematics, Operational Research, Statistics and Economics
  - Year 4 of G300 Mathematics, Operational Research, Statistics and Economics

This module is Unusual option for:

- UPHA-L1CA Undergraduate Economics, Psychology and Philosophy
  - Year 2 of L1CA Economics, Psychology and Philosophy
  - Year 3 of L1CA Economics, Psychology and Philosophy

This module is Option list B for:

- USTA-Y602 Undergraduate Mathematics,Operational Research,Statistics and Economics
  - Year 3 of Y602 Mathematics,Operational Research,Stats,Economics
  - Year 3 of Y602 Mathematics,Operational Research,Stats,Economics