

Stockholm School of Economics

Doctoral Course

New Ideas in Banking and Corporate Finance

Enrico Perotti, UvA and CEPR

Course Outline

The course reviews classic and novel views on financial intermediation and corporate finance. We cover recent work on endogenous risk, human capital investment, the safety provision role of banks and financial stagnation.

The banking segment covers classic work on debt optimality, maturity and liquidity risk transformation, endogenous risk cycles, and novel work on demand for safety. The corporate finance section studies how corporate investment in intangible capital demand transforms its funding needs and has long term growth and reallocative effects.

Requirements

None. Recommended: Contract Theory, Corporate Finance

Examination

Course paper to be handed in after the course. Deadline TBA.

Course Material

No stars indicate complementary readings. * One star indicates mandatory readings to be studied carefully outside technical details. ** Two star readings require understanding technical derivation.

Classes

The course will take place over 16 hours of 45 minutes, divided in 1:30 hour segments. The last two hours will be used to engage students on their course paper topic, ideally a comparison of two competing theory papers or an assessment of the evidence in favor of a specific model.

Monday, April 1: 1230-1730

Tuesday, April 2: 930-1230 and 1400-1630

Wednesday, April 3: 930-1230 and 1400-1630

Location of classes: Room “Fama”, Swedish House of Finance

Course Outline

Advanced mandatory reading (before the first class)

- Myerson, Roger B. "Rethinking the Principles of Bank Regulation: A Review of Admati and Hellwig's The Bankers' New Clothes." *Journal of Economic Literature* 52.1 (2014): 197-210.

Debt optimality

Information Insensitive Funding

- Dang, Tri Vi, et al. "Banks as secret keepers." *The American Economic Review* 107.4 (2017): 1005-1029.
- * Gale, D, and M Hellwig (1985), "Incentive Compatible Debt Contracts: The One Period Problem," *Review of Economic Studies*, 52, pp 647-663
- Hart, O. and J. Moore (1998, February). Default and renegotiation: a dynamic model of debt, *Quarterly Journal of Economics* 93(1), 1–41.

Monitoring

- ** Holmstrom, B, and J Tirole (1997), "Financial Intermediation, Loanable Funds, and the Real Sector," *Quarterly Journal of Economics*, 112, p 663-691
- Diamond, D. W. and Rajan, R. G. (2001), 'Liquidity risk, liquidity creation, and financial fragility: A theory of banking', *Journal of Political Economy* 109(2), 287–327.

Liquidity Risk

- ** Brunnermeier, Marcus, and Martin Oehmke (2012): "The Maturity Rat Race," *Journal of Finance*, (2013)
- * Brunnermeier, Markus, "Deciphering the Liquidity and Credit Crunch 2007–2008",
- ** Diamond, Douglas and Philip Dybvig (1983), "Bank runs, deposit insurance and liquidity," *Journal of Political Economy*, 91: 401-419
- Goldstein, Itay "Empirical Literature on Financial Crises: Fundamentals vs. Panic", in *Evidence and Impact of Financial Globalization*, edited by Gerard Caprio (Elsevier, Amsterdam), pp. 523-534, December 2012
- Goldstein, Itay and Ady Pauzner, Demand Deposit Contracts and the Probability of Bank Runs", *Journal of Finance*, vol. 60(3), pp. 1293-1328, June 2005
- Matta, Rafael and Enrico Perotti (2018), "Efficient Mandatory Stay", UvA mimeo

Liquidity Risk Externalities and Regulation

- * Adrian, T and H Shin (2010), "Liquidity and leverage," Journal of Financial Intermediation, 19, 418-437
- * Perotti, E, and J Suarez (2011), "A Pigovian Approach to Liquidity Regulation", International Journal of Central Banking
- Martinez-Miera, David & Suarez, Javier, 2012. "A Macroeconomic Model of Endogenous Systemic Risk Taking," CEPR Discussion Papers 9134

Demand for Safety

- Caballero, Ricardo, and Emmanuel Farhi. "The safety trap." The Review of Economic Studies (2017)
- ** Caballero, R. and A. Krishnamurthy. Global imbalances and financial fragility. American Economic Review, 99(2):584–88, 2009.
- ** Krishnamurthy, Arvind and Vissing-Jorgensen, Annette, (2012), The Aggregate Demand for Treasury Debt, Journal of Political Economy, 120, issue 2, p. 233 - 267
- * Ahnert, Toni and Enrico Perotti. Intermediaries as Safety Providers. University of Amsterdam Working Paper, 2017.
- Ahnert, Toni and Enrico Perotti. Cheap but Unstable, University of Amsterdam Working Paper, 2016

Funding Intangible Capital

- * Doettling, Robin, Tomislav Ladika and Enrico Perotti "Funding Intangible Capital", Uva mimeo 2019; empirical evidence in DLP CEPR DP 2017

Credit Cycles and Long Term Trends

- * Doettling, Robin and Enrico Perotti, E "Redistributive Growth", Uva mimeo; revision of CEPR DP 2017
- * Enrico Perotti and Magda Rola-Janicka, "Funding Shocks and Credit Quality", Uva mimeo 2018
- * Philippon, Thomas, and German Gutierrez, 2016, Investment-less growth: An empirical investigation, New York University working paper.
- Philippon, Thomas and German Gutierrez, 2017, Declining competition and investment in the US, New York University working paper.

Financial Stagnation

- * Enrico Perotti "Lectures on Financial Stagnation"