

The Centre for Finance, University of Gothenburg, Sweden, offers a Doctoral mini-course

## LECTURES IN THEORETICAL BANKING

with **Professor Anjan Thakor, Washington University in St Louis**

**Course Description:** The objective of the course is to introduce PhD students and young faculty to the scientific theoretical literature on banking, with a focus on theories of financial intermediary existence, bank liquidity creation, bank capital and financial crises. We will cover selected papers on these topics. The reading list is attached.

**Time:** June 13-17, 2016

**Place:** The School of Business, Economics and Law, Vasagatan 1, Gothenburg

**Schedule:**

- Monday: 1 pm - 4 pm
- Tuesday: 10 am -11:30 am; 1:00 pm – 2:30 pm (Papers A1, A-2, A-3)
- Wednesday: 10 am – 11:30 am; 1:00 pm – 2:30 pm (Papers B-5 through B-9)
- Thursday: 10 am -11:30 am; 1:00 pm – 2:30 pm (Papers C-11 through C-14)
- Friday: 10 am- 11:30 am; 1:00 pm – 2:30 pm (Papers D-16 through D19 plus short Student presentations of new ideas)

**Examination:** Each student will have to choose one of the papers on the attached list and come up with a detailed description (approximately 5-10 pages in length) that identifies a new empirical test of the one of the predictions/implications of that theory. The idea is to start the process of writing a publishable empirical paper based on a deep understanding of the theory in the chosen paper. Each student will be given 5-10 minutes to present the proposed empirical test in class on Friday. This means that you need to come up with your idea before Friday, although the actual write-up will need to be handed in only a week later.

**Book:** Although we will not directly discuss the book in class, The Centre for Finance will provide participants with a copy of *Contemporary Financial Intermediation*, a book by Stuart Greenbaum, Anjan Thakor and Arnoud Boot. This book (referred to below as GTB) has a lot of the institutional materials that will be very useful as background reading for many of the topics we will discuss.

**Application:** The course is open to a limited number of participants. E-mail a cover letter, your CV, and a recommendation letter from your supervisor to [cff@cff.gu.se](mailto:cff@cff.gu.se) before May 1, 2016. Notification of acceptance will be given by May 15, 2016. Questions about the course can be e-mailed to [martin.holmen@cff.gu.se](mailto:martin.holmen@cff.gu.se)

**Travel Stipends:** The Swedish House of Finance has generously made some funding available for travel and accommodation in Gothenburg during the course for PhD students from Swedish universities. Please specify if you apply for funding in the cover letter and enclose a budget proposal for travel costs. Furthermore, The Nordic Finance Network (NFN) offers Travel Grants for the attending PhD students in finance, who come from one of the NFN member institutions, outside of Sweden. See more <http://nfn.aalto.fi/courses.htm>.

## Papers to be Discussed:

### A. **Financial Intermediary Existence**

- 1) Ramakrishnan, R.T.S. and Thakor, A.V., "Information Reliability and a Theory of Financial Intermediation", *Review of Economic Studies* 51-3, July 1984, 415-432.
- 2) Bhattacharya, S. and A.V. Thakor, "Contemporary Banking Theory," *JFI* 3-1, October 1993.
- 3) Diamond, D. "Financial Intermediation and Delegated Monitoring," *Review of Economic Studies*, 1984.
- 4) Background Reading: Ch. 3 in GTB book.

### B. **Models of the Deposit Contract and Bank Liquidity Creation**

- 5) \*Diamond, D. and Dybvig, P., "Bank Runs, Deposit Insurance and Liquidity", *JPE* 91, 1983.
- 6) Jacklin, C., "Demand Deposits, Trading Restrictions and Risk Sharing", in E. Prescott and N. Wallace (eds.) *Contractual Arrangements for Intertemporal Trade*, Chapter 11, pp. 26-47, University of Minnesota Press.
- 7) Calomiris, Charles and Charles Kahn, "The Role of Demandable Debt in Structuring Optimal Banking Arrangements", *AER*, June 1991, pp. 497-513.
- 8) Donaldson, J., Piacentino, G. and Thakor, A.V., "Warehouse Banking," WP, Washington University in St. Louis, WP, July 2015.
- 9) Diamond, D.W. and R. Rajan, "Liquidity Risk, Liquidity Creation and Financial Fragility: A Theory of Banking," *JPE* 109-2, 2001.
- 10) Background Reading: Ch. 3 and Ch. 12 in GTB book.

### C. **Financial Crises**

- 11) Thakor, A.V., "The Financial Crisis of 2007-09: Why Did it Happen and What Did We Learn?", *RCFS*, September 2015.
- 12) Thakor, A.V. "Incentives to Innovate and Financial Crises", *JFE* 103(1), January 2012.
- 13) Thakor, A.V., "Lending Booms, Smart Bankers and Financial Crises", *AER* 105(5), May 2015.
- 14) \*Gennaioli, N., Shleifer, A. and Vishny, R., "Neglected Risks: The Psychology of Financial Crises", *AER* 105(5) May 2015.
- 15) Background Reading: Ch. 14 in GTB book.

### D. **Bank Capital and Financial Stability**

- 16) Mehran, H., and A.V. Thakor, "Bank Capital and Value in the Cross-Section," *RFS* April 2011.
- 17) Holmstrom, B. and J. Tirole, "Financial Intermediation, Loanable Funds and the Real Sector", *QJE* 112(3), August, 1997.
- 18) Coval, J. and Thakor, A.V., "Financial Intermediation as a Beliefs Bridge Between Optimists and Pessimists," *JFE* 75-3, March 2005.
- 19) Thakor, A.V., "Bank Capital and Financial Stability: Economic Tradeoff or Faustian Bargain?", *ARFE*, December 2014, pp. 185-223.
- 20) Background Reading: Ch. 13 in GTB book.

## Journal Abbreviations:

<i>AER</i>	.....American Economic Review
<i>ARFE</i>	.....Annual Review of Financial Economics
<i>JFE</i>	.....Journal of Financial Economics
<i>JFI</i>	.....Journal of Financial Intermediation
<i>JPE</i>	.....Journal of Political Economy
<i>QJE</i>	.....Quarterly Journal of Economics
<i>RCFS</i>	.....Review of Corporate Finance Studies
<i>RES</i>	.....Review of Economic Studies
<i>RFS</i>	.....Review of Financial Studies