BANKING

X. Freixas

Textbook

Freixas, X. and Rochet, J.C., *Microeconomic theory of banking*. MIT Press, 1996.

1- General Introduction and Empirical Findings

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2. Why Do Financial Intermediaries Exist?

- Economies of scale and economies of scope
- Assets transformation
- Liquidity
- Default risk
- Maturity
- Indivisibilities

Information and monitoring
The equilibrium level of financial intermediation
Competition in the deposit and loans markets

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3. The Industrial Organization Approach

The Monti-Klein model
Generalisation

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4. The Borrower-Lender Contract in Asymmetric Information

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5. Equilibrium and Rationning in the Credit Market

Equilibrium in the credit market
Definition and previous explanations of credit rationning
- Modigliani-Jaffee
- Keeton

Adverse selection
- Stiglitz-Weiss

Moral hazard
- The static approach
- The dynamic approach

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6. Macroeconomic Consequencies of the Financial Intermediation

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<u>7. Individual Bank Runs and Systematic Risk</u>

Bank runs
The role of the central bank

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<u>8. Managing Risk in the Banking Firm</u>

Default risk
- Institutional context
- Evaluating the cost of default risk
- Empirical evidence (credit scoring)
- Extensions

Portfolio risk
- Modern portfolio theory
- Application to the banking firm
- The impact of capital requirements

Transformation risk
- An elementary approach: the gap method
- The modern approach: the duration method

Liquidity risk
- Reserves management
- Introducing liquidity risk in the Klein-Monti model
- Banks as market makers
- Extensions

Conclusion

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9. The Regulation of Banks

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