PhD Course on Financial Intermediation (Fall 2007)

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- Required of all 2nd and 3rd year Finance & Economics students
- Open to other PhD and MQF students

This course will discuss both theoretical and empirical papers on Financial Intermediation. Each student will have to present a paper (or two, depending on class enrollment), and class grade will depend on the quality of that presentation, the submitted write-up of the selected paper, and on general class participation. The write-up of the paper should be submitted just before class presentation. All working papers will be put on the course page on Blackboard.

Weeks 1-3: Organizational meeting, theories of financial intermediation

- O'Hara, M., 1983, A theory of the banking firm, JF, 127-140.
- Diamond, D., 1984, Financial intermediations and delegated monitoring, Review of Economic Studies, 393-414.
- Ramakrishnan, S., and A. Thakor, 1984, Information reliability and a theory of financial intermediation, Review of Economic Studies, 415-432.
- Boyd, J., and E. Prescott, 1986, Financial intermediary coalitions, JET, 211-232.
- Rajan, R., 1992, Insiders and outsiders: The choice between informed and arm's length debt, JF, 1367-1400.

Week 4: The "specialness" of banks (Empirical evidence)

- Fama, E., 1985, What's different about banks?, JME, 29-39.
- Bernanke, B., 1983, Nonmonetary effects of the financial crisis in the propagation of the Great Depression, AER, 257-276.
- James, C., 1987, Some evidence on the uniqueness of bank loans, JFE, 217-235
- Lummer, S., and J. McConnell, Further evidence on the bank lending process and the capital market response to bank loan agreements, JFE, 99-122.
- Slovin, M., Johnson, S., and J. Glascock, 1992, Firm size and the information content of bank loan announcements, JBF, 1057-1071.

Weeks 5-6: Relationship lending, soft information, and distance

- Petersen, M. and R. Rajan, 1994, The benefits of lending relationships: Evidence from small business data, JF, 3-37.
- Berger, A., and G. Udell, 1995, Relationship lending and lines of credit in small firm finance, JB, 351-381.
- Petersen, M., and R. Rajan, 2002, Does distance still matter? The information revolution in small business lending, JF, 2533-2570.
- Stein, J., Information production and capital allocation: Decentralized vs. hierarchical firms, JF, 1891-1921.
- Cole, R., L. Goldberger, and L. White, 2004, Cookie-cutter versus character: The micro structure of small business lending by large and small banks, JFQA, 227-251
- Drucker, S., and M. Puri, 2005, On the benefits of concurrent lending and underwriting, JF, 2763-2800.
- Berger, A., et. al, 2005, Does function follow organizational form? Evidence from the lending practices of large and small banks, JFE, 237-269.
- Liberti, J., 2004, Initiative, incentives and soft information: How does delegation impact the role of bank relationship managers? Working paper, University of Chicago.
- Petersen, M., 2004. Information: Hard and Soft, Working paper, Northwestern.

Week 7: Collateral (constrained by time not going into the various theories of collateral-their implications will be dealt with)

- Berger, A., and G. Udell, 1990, Collateral, loan quality, and bank risk, JME, 21-42.
- John, K., A. Lynch and M. Puri, 2003. Credit ratings, collateral, and loan characteristics: Implications for yield, JB, 371-409.
- Brick, I., and D. Palia, Evidence of jointness in the terms of relationship lending, JFI. July 2007, 452-476.

Weeks 8 and 9: Risk factors in financial firms

- Flannery, M., 1981, Market interest rates and commercial bank profitability: an empirical investigation, JF. 1085-1101.
- Flannery, M., and C. James, 1984, The effect of interest rate changes on the common stock returns of financial institutions, JF, 1141-1153.
- Giliberto, M., 1985, Interest rate sensitivity in the common stock of financial intermediaries: a methodological note, JFQA, 123-126.
- Staikouras, S., 2003, The interest rate risk exposure of financial intermediaries: a review of the theory and empirical evidence, Financial Markets, Institutions and Instruments, 257-289.
- Fraser, D., Kolari, J., Sorescu, S. and A. Viale, Common risk factors in banks, working paper, Texas A&M University.

<u>Weeks 10 and 11</u>: Bank Capital and Deposit Insurance

- Merton, R., 1977, An analytic derivation of the cost of deposit insurance and loan guarantees, JBF, 3-11.
- Marcus, A., and I. Shaked, 1984, The valuation of FDIC deposit insurance using option pricing estimates, JMCB, 446-460.
- Ronn, E., and A. Verma, 1986, Pricing risk-adjusted deposit insurance: An option based model, JF, 871-895.
- Pennacchi, G. 1987, A reexamination of the over- (or under-) pricing of deposit insurance, JMCB, 340-360.
- Pennacchi, G. 1987, Alternative forms of deposit insurance: Pricing and bank incentive issues, JBF, 291-312.
- Allen., L., and A. Saunders, 1993, Forbearance and the valuation of deposit insurance as a callable put, JBF, 629-643.
- Cooperstein, R., Pennacchi, G., and S. Redburn 1995, The aggregate cost of deposit insurance: A multiperiod analysis, JFI, 242-271.
- Hovakimian, A. and E. Kane, 2000, Effectiveness of capital regulation at U.S. commercial banks, 1985-1994, JF, 451-468.

<u>Weeks 12 and 13</u>: Loan sales and loan syndicates (time permitting)

- Demsetz, R., 2000, Bank loan sales: A new look at the motivations for secondary market activities, J. of Financial Research, 192-222.
- Drucker, S., and M. Puri, 2007, On loan sales, loan contracting, and lending relationships, Working paper, Columbia.
- Ivashina, V., 2007, Agency effects of syndicated loan rates, Working papers, Harvard Business School.

<u>Weeks 14 and 15:</u> Bank runs and contagion (time permitting)

- Diamond , D., and P. Dybvig, 1983, Bank runs, deposit insurance, and liquidity, JPE, 401-419.
- Postelwaite, A., and X. Vives, 1987, Bank runs as an equilibrium phenomenon, JPE, 485-491.
- Jacklin, C., and S. Bhattacharya, 1988, Distinguishing panics and information based runs: Welfare and policy implications, JPE, 568-592.
- Allen, F., and D. Gale, Optimal financial crises, JF 1998, 1245-1284.
- Allen, F., and D. Gale, Financial contagion, JPE, 1-33.