

School of Economics and Finance

## **ECON 352**

### **SPECIAL TOPIC: THE ECONOMICS OF BANKING**

Trimester 2, 2014

### **COURSE OUTLINE**

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#### **Names and Contact Details**

Stephen Burnell      RH205      463-5764      Course Coordinator and Lecturer  
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Office hours: Mon, Wed, 3pm-4:15pm.

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Alice Fong      RH318      463-5353      Course Administrator  
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#### **Trimester Dates**

Teaching Period: Monday 14<sup>th</sup> July – Friday 17<sup>th</sup> October

Study Period: Monday 20<sup>th</sup> October – Thursday 23<sup>rd</sup> October

Examination Period: Friday 24<sup>th</sup> October – Saturday 15<sup>th</sup> November (inclusive)

#### **Withdrawal from Course**

1. Your fees will be refunded if you withdraw from this course on or before Friday 25<sup>th</sup> July 2014.
2. The standard last date for withdrawal from this course is Friday 26<sup>th</sup> September. After this date, students forced to withdraw by circumstances beyond their control must apply for permission on an '*Application for Associate Dean's Permission to Withdraw Late*' including supporting documentation. The application form is available from either of the Faculty's Student Customer Service Desks.

#### **Class Times and Room Numbers**

Monday and Wednesday      16:40-17:30 in RHLT3

#### **Course Delivery**

The course material will be delivered via 24 lectures (two a week for 12 weeks), plus eight tutorial sessions. It will be essential that students have access to the course Blackboard site.

#### **Group Work**

There is no group work for ECON 352.

### **Expected Workload**

The expected workload for ECON 352 is 150 hours in aggregate; 10 hours per week during term, plus 30 hours (in total) during the break and study period. You should expect to spend ten hours per week on this subject during the trimester, two hours in lectures, one hour in a tutorial (for eight of the weeks), and seven-eight hours reading and preparing for lectures and tutorials.

### **Prescription**

An introduction to the economics of banking.

### **Course Learning Objectives (CLOs)**

At the end of the course, students should be able to:

- Formally describe and critically analyse the New Zealand banking system.
- Critically analyse theories of loan contracts and banking with idiosyncratic risk.
- Describe and analyse the differences between idiosyncratic and correlated risk.
- Critically analyse theories of deposit insurance.
- Describe and critically analyse incentive problems for retail banks.
- Combine theories and empirics to analyse and comment on recent events in banking.

### **Course Content**

Note that this is a broad outline only. It is sufficient to enable students to read ahead of lectures and put themselves in a position to benefit from lectures. However, individual lecturers will sometimes deviate from the order given here.

#### ***The New Zealand Banking System***

L1-2                      Data  
                                Balance sheets  
                                Non-resident funding

#### ***Loan contracts***

L3-4                      Costly verification  
                                The equilibrium loan contract  
                                The standard debt contract  
                                Bankruptcy

#### ***Banks***

L5-6                      Banks as coalitions (of depositors)  
                                Principal-agent problems  
                                Idiosyncratic and correlated risk

#### ***The Diamond-Dybvig model***

L7-8                      Complete insurance markets  
                                Demand deposits  
                                Bank runs  
                                Deposit insurance

#### ***Extensions to Diamond-Dybvig***

L9-10                     Claims against future output  
                                Bank runs?

**Risk**

L11-12

Idiosyncratic risk and the law of large numbers

Correlated risk and the world financial crisis

Managing risk

**History of  
crises**

L13-14

**Financial  
Fragility**

L15-16

**Institutions:  
Central  
Banks and  
International  
Organizations**

L17-18

**Regulations**

L19-20

**Bubbles**

L21-22

**Contagion**

L23-24

<b>Week</b>	<b>Lecture</b>	<b>Topic</b>	<b>Text references</b>	<b>Tutorial</b>
Week 1	L1 L2	The New Zealand Banking System		
Week 2	L3 L4	Loan contracts		
Week 3	L5 L6	Banks		1
Week 4	L7 L8	The Diamond-Dybvig model		2
Week 5	L9 L10	Extensions to Diamond-Dybvig		3
Week 6	L11 L12	Risk		4
Week 7	L13 L14 <i>Essay 1 due</i>	History of Crises		
Week 8	L15 L16	Financial Fragility		
Week 9	L17  L18	Institutions: Central Bank(s) and International Organizations		5

Week 10	L19 L20	Regulations	6
Week 11	L21 L22	Bubbles	7
Week 12	L23 L24 <i>Essay 2 due</i>	Contagion	8

### **Readings**

There is no textbook for this course. Reading can be found on blackboard or online.

Useful websites include the Reserve Bank of New Zealand <http://www.rbnz.govt.nz/>

Statistics New Zealand <http://www.stats.govt.nz/>

The Federal Reserve Bank of Minneapolis, <http://www.mpls.frb.org/index.cfm>

The Federal Reserve Bank of St Louis, <http://www.stlouisfed.org/>

### **Materials and Equipment**

Silent non-programmable calculators may be taken into the test and examination. You may find a calculator useful, but they are by no means compulsory.

### **Assessment**

From Trimester 1, 2014, a revised Assessment Handbook will apply to all VUW courses: see

<http://www.victoria.ac.nz/documents/policy/staff-policy/assessment-handbook.pdf>.

In particular, there will be a new grade scheme, in which the A+ range will be 90-100% and 50-54% will be a C-.

Essay 1	20%	CLOs 1-3, due Monday 8 <sup>th</sup> September in class.
Essay 2	20%	CLOs 4-5, due Monday 13 <sup>th</sup> October in class
Examination	60%	CLOs 1-6, Friday 24 October – Saturday 15 November (inclusive).

### **Tutorials**

There will be one tutorial group for the class. Eight tutorials in total will be given. Tutorials are voluntary (though, hopefully, they will help you pass the course).

### **Penalties**

Late submission of an essay will result in one mark (out of 20) being deducted for every day the essay is late.

### **Examinations**

Students who enrol in courses with examinations are obliged to attend an examination at the University at any time during the formal examination period. The final examination for this course will be scheduled at some time during the following period:

Friday 24 October – Saturday 15 November (inclusive)

### **Mandatory Course Requirements**

There are no mandatory course requirements for ECON 352.

If you cannot complete an essay or sit the examination, in the first instance, contact the course administrator to discuss the options. In the case that you wish to consider applying for an aegrotat, refer to [www.victoria.ac.nz/home/study/exams-and-assessments/aegrotat](http://www.victoria.ac.nz/home/study/exams-and-assessments/aegrotat)

### **Class Representative**

A class representative will be elected in the first class, and that person's name and contact details made available to VUWSA, the course coordinator and the class. The class representative provides a communication channel to liaise with the course coordinator on behalf of students.

### **Communication of Additional Information**

Additional information will regularly be placed on the course Blackboard site. You will also receive emails sent to the email address recorded on Student Records. Please check at the start of the course that this is the address you want to use.

### **Student feedback**

Student feedback on University courses may be found at:

[www.cad.vuw.ac.nz/feedback/feedback\\_display.php](http://www.cad.vuw.ac.nz/feedback/feedback_display.php)

### **Link to general information**

For general information about course-related matters, go to:

<http://www.victoria.ac.nz/vbs/studenthelp/general-course-information>

### **Note to Students**

Your assessed work may also be used for quality assurance purposes, such as to assess the level of achievement of learning objectives as required for accreditation and academic audit. The findings may be used to inform changes aimed at improving the quality of VBS programmes. All material used for such processes will be treated as confidential, and the outcome will not affect your grade for the course.

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