

School of Economics and Finance

ECON 352 SPECIAL TOPIC: BANKING

Trimester 2, 2015

COURSE OUTLINE

Names and Contact Details

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Office hours: Tuesdays, Thursdays, 9:00am-10:20am

Alice Fong RH318 463-5353 Course Administrator
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Trimester Dates

1. Teaching Period: Monday 13th July – Friday 16th October
Study Period: Monday 19th October – Thursday 22nd October
Examination Period: Friday 23rd October – Saturday 14th November (inclusive)

Withdrawal from Course

1. Your fees will be refunded if you withdraw from this course on or before Friday 24th July 2015.
2. The standard last date for withdrawal from this course is Friday 25th 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*' form including supporting documentation. The application form is available from either of the Faculty's Student Customer Service Desks or [online](#).

Class Times and Room Numbers

Tuesday and Thursday: 10.30am to 11.20am in RWW413

Tutorials

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

Course Delivery

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

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

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
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Loan contracts

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

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

L7-8	Complete insurance markets Demand deposits Bank runs Deposit insurance
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Extensions to Diamond-Dybvig

L9-10	Claims against future output Bank runs?
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Risk

L11-12	Idiosyncratic risk and the law of large numbers Correlated risk and the world financial crisis Managing risk
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The Reserve Bank of New Zealand

L13-14

The NZ Housing Market

L15-16

Monetary Policy

L17-18

Monetary Policy and the Housing Market

L19-20

Bubbles

L21-22

Financial Stability

L23-24

Week	Lecture	Topic	Text references	Tutorial
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>	The Reserve Bank of New Zealand		
Week 8	L15 L16	The New Zealand Housing Market		
Week 9	L17 L18	Monetary Policy		5
Week 10	L19 L20	Monetary Policy and the Housing Market		6
Week 11	L21 L22	Bubbles		7
Week 12	L23 L24 <i>Essay 2 due</i>	Financial Stability		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

The Assessment Handbook will apply to all VUW courses: see

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

Essay 1	20%	CLOs 1-3, due Tuesday 8 th September in class.
Essay 2	20%	CLOs 4-5, due Tuesday 13 th October in class
Examination	60%	CLOs 1-6, Friday 23 October – Saturday 14 November (inclusive).

Penalties

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

Use of Turnitin

Student work provided for assessment in this course may be checked for academic integrity by the electronic search engine <http://www.turnitin.com>. Turnitin is an on-line plagiarism prevention tool which compares submitted work with a very large database of existing material. At the discretion of the Head of School, handwritten work may be copy-typed by the School and submitted to Turnitin. A copy of submitted materials will be retained on behalf of the University for detection of future plagiarism, but access to the full text of submissions will not be made available to any other party.

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 23rd October – Saturday 14th November (inclusive)

Mandatory Course Requirements

There are no mandatory course requirements for ECON352.

If you cannot complete an assignment or sit a test or examination, refer to

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

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.
