

Economics and Finance

ECON 352 SPECIAL TOPIC: BANKING

Trimester 2, 2016

COURSE OUTLINE

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

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

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 | Extensions to Diamond-Dybvig | | 3 |

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|---------|--------------------|--|---|
| | L10 | | |
| Week 6 | L11 | Risk | 4 |
| | L12 | | |
| Week 7 | L13 | The Reserve Bank of New Zealand | |
| | L14 | | |
| | <i>Essay 1 due</i> | | |
| Week 8 | L15 | The New Zealand Housing Market | |
| | L16 | | |
| Week 9 | L17 | Monetary Policy | 5 |
| | L18 | | |
| Week 10 | L19 | Monetary Policy and the Housing Market | 6 |
| | L20 | | |
| Week 11 | L21 | Bubbles | 7 |
| | L22 | | |
| Week 12 | L23 | Financial Stability | 8 |
| | L24 | | |
| | <i>Essay 2 due</i> | | |

Trimester Dates

Teaching Period: Monday 11th July – Friday 14th October

Study Period: Monday 17th October – Thursday 20th October

Examination Period: Friday 21st October – Saturday 12th November (inclusive)

Withdrawal from Course

1. Your fees will be refunded if you withdraw from this course on or before Friday 22nd July 2016.
2. The standard last date for withdrawal from this course is Friday 23rd September 2016. 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 or [online](#).

Names and Contact Details

Course Coordinator and Lecturer: Dr Stephen Burnell

Office: RWW213 Ph. 463-6146

Email: stephen.burnell@vuw.ac.nz

Office hours: Tuesdays, 9am-9:20am and 11.30am-12.20pm

Thursdays, 9am-9.20am and 11.30am-12.20pm

Course Administrator: Alice Fong

Office: RWW120 Ph. 463-5353

Email: alice.fong@vuw.ac.nz

Class Times and Room Numbers

Tuesday and Thursday: 9.30am to 10.20am in RWW129

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.

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/>

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.

Assessment

The Assessment Handbook will apply to all VUW courses: see <http://www.victoria.ac.nz/documents/policy/staff-policy/assessment-handbook.pdf>.

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|-------------|-----|--|
| Essay 1 | 20% | CLOs 1-3, due Tuesday 6 th September in class |
| Essay 2 | 20% | CLOs 4-5, due Tuesday 11 th October in class |
| Examination | 60% | CLOs 1-6, (2 hours) |

If you cannot complete an assignment or sit a test or examination, refer to www.victoria.ac.nz/home/study/exams-and-assessments/aegrotat

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 21st October – Saturday 12th 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.

Group Work

There is no group work in this course.

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.

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.

Student feedback

Student feedback on University courses may be found at www.cad.vuw.ac.nz/feedback/feedback_display.php

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.

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.
