

Johannes-Gutenberg Universität Mainz
Master in International Economics and Public Policy

Seminar on Financial Economics: *Banking and the Macroeconomy*

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Chair of Financial Economics

Summer term 2016

1 Outline

The world financial crisis of 2007/08 and its subsequent repercussions emphasized the crucial role of banks for macroeconomic stability and performance. As a consequence, the behavior of banks and the structural features of the banking sector now play a much more important role in macroeconomic model building than they did prior to the financial crisis.

This seminar has two general objectives and is, therefore, divided into two parts. The first part aims to understand the behavior and organization of banks at the individual, microeconomic level. Specifically, we will consider the decision problems faced by banks and their behavior in a partial equilibrium framework under different assumptions on their technologies and internal structure. The second part emphasizes the macroeconomic aspects of banking with a particular focus on the study of bank runs aiming to understand when and why they occur and what can be done to avoid them.

2 Topics

2.1 Part I: The Microeconomics of Banking

The following topics are based on chapters from Freixas & Rochet (1997), labeled as (FR) for short.¹ You should also incorporate the additional references and the literature provided in each chapter.

- Topic 1: *Basics of Banking and General Equilibrium* (FR, Ch. 1)
- Topic 2: *Why Do Banks and Financial Intermediaries Exist?** (FR, Ch. 2)
- Topic 3: *The Industrial Organization Approach to Banking** (FR, Ch. 3)
- Topic 4: *The Lender-Borrower Relationship** (FR, Ch. 4)

¹If you do not find this book in our library, you can take a look and photocopy the relevant sections at our secretary's office. Please send an email to Ms. Silke Bernardi (sekretariat.schnabel@uni-mainz.de).

- Topic 5: *Equilibrium and Rationing in the Credit Market** (FR, Ch. 5)
- Topic 6: *Managing Risks in the Banking Firm** (FR, Ch. 8)

Note: Topics marked with an asterisk * can also be split between several participants.

2.2 Part II: The Macroeconomics of Banking

The following research articles consider macroeconomic models with a banking sector to study bank runs. You should also look at and incorporate the references cited in these papers.

- Topic 7: *A Model of Reserves, Bank Runs, and Deposit Insurance* (Bryant (1980))
- Topic 8: *Bank Runs, Deposit Insurance, and Liquidity* (Diamond & Dybvig (1983))
- Topic 9: *On Avoiding Bank Runs* (Alonso (1996))
- Topic 10: *A Model of a Systemic Bank Run* (Uhlig (2010)).

3 Organization

3.1 Requirements

Participation is open to all MIEPP students in their second or higher semester. The seminar takes place as a blocked course on Friday, July 1 and, possibly, on July 8 (see time schedule below). Participants must hand in a seminar paper (approx. 12 pages, font size 12 pt., 1.5 line spacing), and deliver a presentation on their topic. Each presentation lasts about 30 minutes, plus 10 minutes of discussion. Active participation in each of these discussions is expected. All presentations and discussions will be held in English.

3.2 Seminar papers

Please read carefully read our guidelines for seminar participants which can be found at <http://www.macro.economics.uni-mainz.de/963.php>. On June 24 (the latest), please hand in one stapled paper version to the Chair's secretariat (room 01-116, old ReWi) and email an electronic version (single pdf file) to mhillebr@uni-mainz.de. Electronic papers will be made available to all participants prior to presentation. Participants will be offered two office hours to discuss the outline and content of their seminar paper together with any remaining questions.

3.3 Distribution of topics

Please send an email to mhillebr@uni-mainz.de with your preferred topic and at least two (ranked) alternatives **before Thursday, April 21, 2016**. We will assign the seminar topics during the kick-off meeting on April 26.

3.4 Time schedule

- **Kick-off meeting and topic assignment:** Tuesday, April 26, 4:15 - 5:45 pm (room: HS VII). **Attendance is mandatory!**
- **Submission deadline for seminar papers:** Friday, June 24, by 12:00 am (noon).
- **Presentations:** Fridays, July 1 and 8, both starting at 2 pm in RW 6 (details to be announced).

References

- ALONSO, I. (1996): “On Avoiding Bank Runs”, *Journal of Monetary Economics*, 37, 7387.
- BRYANT, J. (1980): “A Model of Reserves, Bank Runs, and deposit insurance”, *Journal of Banking and Finance* 4, 4, 335–344.
- DIAMOND, D. & P. DYBVIK (1983): “Bank Runs, Deposit Insurance, and Liquidity”, *Journal of Political Economy*, 85, 191–206.
- FREIXAS, X. & J.-C. ROCHET (1997): *Microeconomics of Banking*. MIT Press, Cambridge, Massachusetts a. o., 5.Auflage.
- UHLIG, H. (2010): “A Model of a Systemic Bank Run”, *Journal of Monetary Economics*, 57, 7896.