„Banking and Modern Financial Economics"

Co-Pierre Georg[*]

The recent financial crisis has challenged the economic profession to develop new models that allow a better understanding of market imperfections that can lead to financial instability. This course is designed to give students and researchers interested in banking and financial economics a thorough overview of recent developments in this field. Recent issues in banking and financial economics, as well as seminal contributions to the field are discussed during the course. Special emphasis is placed on considerations about the uniqueness of equilibria in general equilibrium banking models. No prior knowledge of financial economics is assumed, as all models are developed from basic assumptions to key conclusions. However, a basic knowledge of game theory and statistics will be helpful.

Topics include: heterogenous beliefs, contract design, global games, uniqueness of equilibria, bank-runs, systemic risk, Knightian uncertainty, financial networks, and macrofinance.

Block A: Introduction
1. Diamond, Douglas W. And Dybvig, Philipp H., *„Bank-runs, deposit insurance and liquidity"*, Journal of Political Economy Vol. 91, No. 3, (**1983**)

Block B: Bank-runs and Systemic Risk
1. Allen, Franklin and Gale, Douglas, *„Financial Contagion"*, The Journal of Political Economy, Vol. 108, No. 1, (**2000**)
2. Acharya, Viral V., *„A theory of systemic risk and design of prudential bank regulation"*, Journal of Financial Stability, Vol. 5, Issue 3, (**2009**)
3. Korinek, Anton, *„Systemic risk-taking: amplification effects, externalities, and regulatory responses"*, European Central Bank Working Paper No. 1345, (**2011**)

Block C: Uniqueness of Equilibria
1. Morris, Stephen and Shin, Hyun Song, *„Unique Equilibrium in a Model of Self-Fulfilling Currency Attacks"*, American Economic Review, Vol. 88, No. 3 (**1998**)
2. Goldstein, Itay and Pauzner, Ady *„Demand–Deposit Contracts and the Probability of Bank Runs"*, Journal of Finance, Vol. 60, Issue 3, (**2005**)

Block D: Modern Applications
1. Uhlig, Harald, *„A model of a systemic bank-run"*, Journal of Monetary Economics, Vol. 57, Issue 1, (**2010**)
2. Caballero, Ricardo J. and Simsek, Alp, *„Complexity in Financial Panics"*, NBER Working Paper No. 14997, (**2009**)

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Schedule:

	Tuesday, 13 September	Wednesday 14 September
10:00-11:00	Introduction	Uniqueness of Equilibria C-1
11:00-12:00	Bank-runs and Systemic Risk B-1	Uniqueness of Equilibria C-2
14:00-15:00	Bank-runs and Systemic Risk B-2	Modern Applications D-1
15:00-16:00	Bank-runs and Systemic Risk B-3	Modern Applications D-2

Further Reading and Introductory Material

Students interested in further introductory and preparatory reading can have a look at:
- Reinhart, Carmen, and Rogoff, Kenneth, *„This Time is Different – Eight Centuries of Financial Folly"*, Princeton University Press, (**2011**)

→ Well, this time is not different and thus the book is an absolute must read for all who are interested in understanding the financial crisis. The book is well accessible for undergraduate students.
- Acharya, Viral, and Richardson, Matthew, *„Restoring Financial Stability – How to Repair a Failed System"*, WileyFinance, (**2010**)

→ A great introductory read on causes and remedies of the financial crisis that is accessible even for undergraduate students.
- Allen, Franklin, and Gale, Douglas, *„Understanding Financial Crises"* Cambridge University Press, (**2009**)

→ In this impressive book, Franklin Allen and Douglas Gale cover most of their extensive papers on financial crises. The book is mathematically more challenging than the other two and more fit for graduate students.

All Papers can be found at http://www.co-georg.de/