

# Review of main concepts

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Banking and Financial Intermediation

# Disclosure

I can (and will) include things not covered in this summary in the final exam, just like I can (and will) exclude topics. The review is aimed to help you prepare for the exam.

# Banks, Financial Intermediaries, and Central Banks

What did we explore?

- Why do households not finance corporations directly?
- Why are Financial Intermediaries special?
- What is the role of FIs as Delegated Monitors and Information Producers?
- What role do banks play in the transmission of monetary policy?
- Why are depository institutions so heavily regulated?
- Why are commercial banks so heavily levered?
- What is the difference between finance companies and commercial banks?
- What are the main two types of insurance companies?

# Accounting

What did we explore?

- Why is the accounting of commercial banks special?
- Where do US Banks disclose their financial information?
- Interest vs non-interest revenue.
- Provisions

# Liquidity Risk

- What is liquidity risk?
- Why is the exposure to liquidity risk heterogeneous?
- What causes liquidity risk? The liability side reason
- What causes liquidity risk? The asset side reason
- What is the difference between purchased and stored liquidity management.
- What happens to the balance sheet of banks when faced with a liquidity shock.

# Credit Risk

- What are the main two components of credit risk that impact the expected return of a loan?
- How can we measure credit risk?

# Blockchain

- What is a blockchain?
- What prevents in a blockchain the alteration in the history of transactions?
- What is a consensus mechanism?
- What does it mean for a blockchain to be pseudonymous?
- What does the concept of mining mean?
- What is Proof of Work?
- How can a blockchain be programmable?
- What are smart contracts?
- What are NFTs? What are some potential applications outside finance?

# Financial Markets

- What is the main difference in terms of settlement between spot and derivative markets?
- What are over the counter markets?
- What is the difference between primary and secondary markets?
- Are OTC markets regulated?
- What are dark pools?



# Regulation

- Why do we regulate banks?
- What is the main tool that regulators have to regulate banks?
- Why do we risk weight assets when computing a capital ratio?
- What other bank operations require capital requirements?
- What are the key principles of Basel III?

# Interbank Markets

- What asset class is mostly traded in the interbank market?
- What is the normal maturity of contracts exchanged in the interbank market?
- Do non-financial firms operate in the interbank market?
- What is the relation between the interbank market and liquidity management?
- How is the main interest rate in these markets settled? Why can this cause a conflict of interest?

# Systemic Risk

- What is systemic risk?
- How can we measure the contribution of an institution to systemic risk?
- What is contagion?
- What are shadow banks?

# Monetary Policy

- How did governments in the past finance themselves by indirectly doing monetary policy?
- Why is the monopolistic provision of currency so important for monetary policy?
- What are the main modern goals of a central bank?
- Why is bank independence crucial for monetary policy?
- Why is the supply of money no longer relevant when conducting monetary policy?
- What are the two main policy tools that a central bank has for monetary policy?
- Why would banks hold reserves in the central bank when interest rates are low, even if there are no reserve requirements?

# Macroprudential Policy

- What is the main purpose of macro-prudential policy?
- Why do we say that Macroprudential policy is preventive?
- What market failures does it try to identify?
- What is an example of a macroprudential policy?
- Why dynamic and low adjustment cost policies work better?

# Asset Management

- Why is there no room for asset management in the CAPM world?
- Then, why is asset management so huge?
- What can cause conflicts of interests between managers and investors in the fund industry?
- What does it mean that investors chase performance?
- What does it mean that performance is not persistent?
- How can we rationalize investors chasing performance, and performance not being persistent?