STUDENTS ARE EXPECTED TO HAVE COMPLETED
Microeconomics, Financial Economics

COMPETENCES AND SKILLS THAT WILL BE ACQUIRED AND LEARNING RESULTS.
The objective of this course is to study the microeconomics of banking theory, that would allow to understand the operations, regulation and problematic of the banking sector. To achieve this objective, the student should acquire a series of knowledge and skills.

With respect to the series of knowledge, at the end of the course the student should be able to:
- Understand the role that financial intermediaries play in the economy
- Understand the vulnerability of financial intermediaries to bank runs
- Analyze the challenges of bank regulation
- Be aware of the main risks faced by banks

With respect to skills, at the end of the course the student should be able to:
- Defend its own decisions.
- Accept other students' point of view, but with a critical attitude.
- Maintain a flexible attitude in the decision process, taking into account the available information at the time.

DESCRIPTION OF CONTENTS: PROGRAMME

1.- FINANCIAL INTERMEDIATION
1.1.- The chain of flows in a financial system
1.2.- Microeconomic foundations of financial intermediation
1.3.- Financial disintermediation: Technological change and financial innovation
1.4.- Financial institutions: concept and classification

2.- THE DEMAND DEPOSIT CONTRACT
2.1.- Bank liabilities: concept and classification
2.2.- The nature and economic incentives of the demand deposit contract
2.3.- Deposit insurance
- The need for a deposit insurance system: Historical perspective
- The deposit insurance system: "El fondo de garantía de depósitos"
- Deposit insurance and moral hazard

3.- BANKING CRISES
3.1.- Bank runs: theory and empirical evidence
3.2.- Pure panic runs models (Diamond- Dybvig)
3.3.- Information induced runs models

4.- BANK REGULATION
4.1.- The need for bank regulation
4.2.- Objectives of bank regulation
4.3.- Capital requirements: Evolution of bank regulation in the US and Europe
4.4.- Problems with bank regulation

5.- CREDIT RISK ANALYSIS
5.1.- Bank assets: concept and classification
5.2.- Concept of credit risk
5.3.- Factors considered in credit risk analysis:
5.4.- Long term bank-borrower relationships
5.5.- Credit Rationing
6.- INTEREST RATE RISK
6.1.- What is interest rate risk?
6.2.- Measuring interest rate risk with gap analysis
6.3.- Measuring interest rate risk with duration

7. LIQUIDITY RISK
7.1. Definition of liquidity risk
7.2 Liquidity risk versus solvency risk
7.3 Management of liquidity risk

LEARNING ACTIVITIES AND METHODOLOGY
1) Theory sessions. Each topic or sub topic is presented by the professor in a theory session. After the theory session the students have to study the materials and do complementary readings.
2) Practical sessions: Problem sets, which have to be solved at home prior to the practical session. The course material for each topic (slides that will be used in theory sessions and problem sets to be solved in practice sessions) is provided in advance through the intranet in Aula Global 2.
3) Finally, students are required to do a presentation in groups.

ASSESSMENT SYSTEM
Grades will be awarded on the basis of the following pieces of work:
- Continuous grading with exercises (10%). Students will be asked to solve some exercises in class.
- Presentations (10%): Additionally, students will do presentations on a particular topic, in different groups.
- Mid-term exam (20%): Multiple Choice. 10-15 Questions. There is a penalty for wrong answers.
- Final exam (60%): It is compulsory to take this final exam, and it evaluates general knowledge acquired by the student. A minimum grade of 4 in the exam is required to pass the course

In the re-take exam, the final exam can either account for 100% of the grade or 60% (the remaining 40% is the continuous evaluation).

% end-of-term-examination: 60
% of continuous assessment (assigments, laboratory, practicals...): 40

BASIC BIBLIOGRAPHY

ADDITIONAL BIBLIOGRAPHY