

**University of Chicago**  
**Harris School of Public Policy Studies**  
**Revised 9/26/2017**

**Bank Regulation and Management**

**Public Policy 42535**

Lecturer: David H. Schabes

Prerequisites: None

Dates: January 3, 2018 – March 9, 2018 (Final Paper due week of March 13)

Time: TBD Location: Classroom: Bldg. 1155 – Room TBD

Office: 1155 East 60<sup>th</sup> Street Room No. TBD Office Hours: TBD

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**Course Description:** This course presents the basics of the banking business and the development of the current financial regulatory environment for the United States, the European Union, the UK, and China, as well as the role of the Bank for International Settlements (BIS) in setting global standards. Global payment systems and banks' management of credit and other risks will be covered. The focus will be on the banking and money markets, including repo and securities lending. Additional discussion regarding the growing role of central counterparties and exchanges, as well as less regulated "shadow banking" will be included. We will discuss the interconnectivity of these markets and regulators attempts to manage them. Major regulatory legislation in each country will be presented as well as some discussion of the underlying legal, economic and financial theories that led to these laws both before and after the 2007-2008 global financial crisis.

**Course Requirements:** There will be a take-home mid-term and a final paper. The mid-term examination will count for 30% of the course grade; the final paper will count for 40%. Four short-answer question sets, given approximately every other week, will be worth 20%. The remaining 10% will be based on participation in class discussions.

**Texts and Other Readings:** There are no texts that effectively cover the entire subject matter for this course. We will use a number of books, academic articles and official pieces that document many of the regulations, regulatory agencies and their practices. Links to articles are provided below.

Selections from the following books will be assigned:

**Admati, Anat, and Hellwig, Martin.** *The Bankers' New Clothes.* Princeton & Oxford: Princeton University Press, 2013.

**Andenas, Mads and Deipenbrock, Gudula, eds.** *Regulating and Supervising European Financial Markets: More Risks than Achievements.* Switzerland: Springer International Publishing AG, 2016.

**Barth, James R.; Tatom, John A.; and Yago, Glenn, Editors.** *China's Emerging Financial Markets: Challenges and Opportunities.* New York, Dordrecht, Heidelberg, London: Springer, 2009.

**Gorton, Gary B.** *The Maze of Banking History, Theory, Crisis.* Oxford and New York: Oxford University Press, 2015.

**Gregory, Jon.** *Central Counterparties.* Chichester, U. K.: John Wiley & Sons, Ltd., 2014.

**Kay, John.** *Other People's Money.* New York: Public Affairs, 2015.

**King, Mervin.** *The End of Alchemy.* New York, London: W. W. Norton & Company, 2016.

**Schultz, Paul H., ed.** *Perspectives on Dodd-Frank and Finance.* Cambridge, MA and London: The MIT Press, 2014.

**Van Hoose, David.** *The Industrial Organization of Banking.* Berlin and Heidelberg: Springer-Verlag, 2010.

**Wei, Shen.** *Shadow Banking in China.* Cheltenham, UK and Northampton, MA, USA: Edward Elgar Publishing, 2016.

**Wolf, Martin.** *The Shifts and the Shocks.* New York: Penguin Press, 2014.

**Course Schedule (Readings for each class precede that class's date):**

*Lecture 1 – Introduction: Course Goals and Introductory Financial Concepts*

**Gorton. *The Maze of Banking*. Chapter 5, Sections 5.1 – 5.4.**

**Van Hoose. Pp. 115-123.**

*Lecture 2 – The Role of Banks in the Economy I*

**Calomiris and Jemarski (2016-1)**

*Lecture 3 -- The Role of Banks in the Economy II*

**Committee on Payment and Settlement Systems. Section 1.2 (pp. 9-13)**

**<http://www.bis.org/cpmi/publ/d55.pdf>**

*Lecture 4 -- Payments and Payment Systems I*

**Admati & Hellwig, pp. 17-31.**

*Lecture 5 – Payments and Payment Systems II*

**Board of Governors of the Federal Reserve System, Federal Deposit Insurance Corporation and Office of the Comptroller of the Currency. *Interagency Guidance on Leverage Lending*. March 21, 2013.**

**<https://www.federalreserve.gov/bankinfo/srletters/sr1303a1.pdf>**

*Lecture 6 – Sources of Funds, Loan Basics and Credit Assessment*

**Van Hoose. Chapter 2.**

*Lecture 7 – Bank Products and Services, Management and Structure*

**Admati & Hellwig, pp. 32-45.**

*Lecture 8 – Risk Management: Credit, Liquidity, Operational, Regulatory and Legal*

**Admati & Hellwig pp 81-114.**

**King, pp 120-140.**

*Lecture 9 – Bank Balance Sheets and Accounting Practices*

Bao, Jack; David, Josh and Han, Song. “The Runnables.” FEDS Notes. September 3, 2015. [www.federalreserve.gov](http://www.federalreserve.gov). Accessed June 15, 2016.

<https://www.federalreserve.gov/econresdata/notes/feds-notes/2015/the-runnables-20150903.html>

*Lecture 10 – Shadow Banking I: Repurchase Agreements, Secured Lending and Securitization*

Gregory, Chapter 2 Sections 2.1 and 2.2

Singh, Manmohan. “Limiting Taxpayer ‘Puts’ – And Example from Central Counterparties. IMF Working Paper, WP/14/203. International Monetary Fund.

<https://www.imf.org/external/pubs/ft/wp/2014/wp14203.pdf>

Rennison, Joe. “US money market fund reform: an explainer.” FTfm, October 14, 2016. Financial Times Website, accessed 7/19/17.

*Lecture 11 – Shadow Banking II: Central Counterparties and Money Market Mutual Funds*

Kay, pp. 208-213.

Bank for International Settlements, Basel Committee on Banking Supervision. “A brief history of the Basel Committee.” October 2015. <http://www.bis.org/bcb/history.pdf>

Alexander, Kern. “Selected Aspects of International Regulation and Policy: Reforming ...” in Andenas and Deipenbrock, eds. Pp 215-229.

*Lecture 12 – International Regulation and the Basel Accords*

Murphy, Edward V. “Who Regulates Whom and How? An Overview of U.S. Financial Regulatory Policy for Banking and Securities Markets.” Congressional Research Service. 5-28-2013.

[http://digitalcommons.ilr.cornell.edu/cgi/viewcontent.cgi?article=2154&context=key\\_workplace](http://digitalcommons.ilr.cornell.edu/cgi/viewcontent.cgi?article=2154&context=key_workplace)

*Lecture 13 – US Regulatory Structure I*

Schultz ed. Chapter 3.

*Lecture 14 – US Regulatory Structure II*

Clifford Chance (Law Firm). “Briefing note: A brief overview of the Financial Services Act 2012 and the new UK financial regulation framework.” March 2013.

[https://www.cliffordchance.com/briefings/2013/03/a\\_brief\\_overviewofthefinancialservicesact.html](https://www.cliffordchance.com/briefings/2013/03/a_brief_overviewofthefinancialservicesact.html)

*Lecture 15 – UK and Eurozone Regulatory Structure I*

Fact Sheets on the European Union- 2017. European System of Financial Supervision (ESFS)

[http://www.europarl.europa.eu/atyourservice/en/displayFtu.html?ftuId=FTU\\_3.2.5.html](http://www.europarl.europa.eu/atyourservice/en/displayFtu.html?ftuId=FTU_3.2.5.html)

*Lecture 16 – UK and Eurozone Regulatory Structure II*

Keidel, Albert. “China’s Financial Sector: Contributions to Growth and Downside Risks” in Barth, James R., Tatom, John A., Yago, Glenn, Editors. *China’s Emerging Financial Markets: Challenges and Opportunities*. New York, Dordrecht, Heidelberg, London: Springer, 2009.

[http://link.springer.com/chapter/10.1007/978-0-387-93769-4\\_3](http://link.springer.com/chapter/10.1007/978-0-387-93769-4_3)

*Lecture 17 – The Chinese Banking System Part I*

Wei, Chapter 2 Sections 1-4.

*Lecture 18 – The Chinese Banking System Part II*

*Read only: Introduction and Section I.*

Revesz, Richard L. “Cost-Benefit Analysis and the Structure of the Administrative State: The Case of Financial Services Regulation.” Public Law & Legal Theory Research Paper Series Working Paper No. 1-07, Law and Economics Research Paper Series Working Paper No. 16-08. New York University School of Law. February 2016.

*Lecture 19 – Use of Cost-Benefit Analysis in Bank Regulation*

Rajan, Raghuram. “Has Financial Development Made The World Riskier?” Working Paper 11728, NBER Working Paper Series. Cambridge, MA: National Bureau of Economic Research. November 2005.

<http://www.nber.org/papers/w11728.pdf>

Wolf, Chapter 4.

*Lecture 20 – Post Crisis Views on Regulation*