

Corporate Finance IV

Ph.D. in Economics and Finance, Bocconi University
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Preliminary syllabus - Fall 2022

Course description and format: The course reviews the main theories of financial intermediation, with special focus on financial crises and financial regulation. Specifically, the course will cover the following topics:

- Topic 1: The role of banks as financial intermediaries
- Topic 2: Banks as liquidity providers and vulnerability to runs
- Topic 3: Asset markets and fire sales
- Topic 4: Financial contagion
- Topic 5: Short-term debt and financial fragility
- Topic 6: Financing under non-exclusivity
- Topic 7: Current issues in bank regulation and resolution
- Topic 8: Debt and derivatives (only covered if there is time)

Course assessment: The final grade will be a weighted average of the grade of a presentation in class (30%) and a final take-home assessment (70%).

Presentation: it will be of about 30-45 minutes plus discussion. Depending on the number of attending students, presentations will be done individually or in small groups. **Papers for the class presentation will be discussed during the course.**

Final assessment: it will consist in a written report on a topic chosen by each student. The report must be no more than 5 pages (double spaced, character 12). It can consist of a referee report (on a paper chosen by the student and agreed with the instructor) or a sketch of a paper. Creativity is a plus!

Reading list

Articles

Topic 1: The role of banks as financial intermediaries

Diamond, D.W. (1984), “Financial Intermediation and Delegated Monitoring”, *Review of Economic Studies*, 51, 393-414.

Holmstrom B. and J. Tirole (1997), "Financial Intermediation, Loanable Funds and the Real Sector", *Quarterly Journal of Economics*, 52, 663-691.

Topic 2: Banks as liquidity providers and vulnerability to runs

Diamond D.V. and P.H. Dybvig (1983), “Bank Runs, Deposit Insurance and Liquidity,” *Journal of Political Economy*, 91, 401-419.

Jacklin C.J. and S. Bhattacharya (1988), “Distinguishing Panics and Information-based Bank Runs: Welfare and Policy,” *Journal of Political Economy*, 96, 568-592.

Goldstein, I. and A. Pauzner, (2005). "Demand-Deposit Contracts and the Probability of Bank Runs," *Journal of Finance*, 60, 1293-1327.

Topic 3: Asset markets and fire sales

Allen F. and D. Gale (2005). "From Cash in the Market Pricing to Financial Fragility," *Journal of the European Economic Association*, 3, 535-546.

Topic 4: Financial contagion

Allen F. and D. Gale (2000), "Financial Contagion," *Journal of Political Economy*, 108, 1-34.

Chen Y. (1999), "Banking Panics: The Role of the First-Come, First-Served Rule and Information Externalities," *Journal of Political Economy*, 107, 946-968.

Topic 5: Short-term debt and financial fragility

Diamond, Douglas W., and Raghuram G. Rajan. "Liquidity risk, liquidity creation, and financial fragility: A theory of banking." *Journal of political Economy* 109.2 (2001): 287-327.

Brunnermeier, Markus K., and Martin Oehmke. "The maturity rat race." *The Journal of Finance* 68.2 (2013): 483-521.

Topic 6: Financing under non-exclusivity

Bizer, David S., and Peter M. DeMarzo. "Sequential banking." *Journal of Political Economy* 100.1 (1992): 41-61.

Donaldson, Jason Roderick, Denis Gromb, and Giorgia Piacentino. "The paradox of pledgeability." *Journal of Financial Economics* 137.3 (2020): 591-605.

Topic 7: Current topics in bank regulation and resolution

Bolton, Patrick, and Martin Oehmke. "Bank resolution and the structure of global banks." *The Review of Financial Studies* 32.6 (2019): 2384-2421.

Oehmke, Martin, and Marcus M. Opp. "Green Capital Requirements." Working paper (2022).

Topic 8: Debt and derivatives

Bolton, Patrick, and Martin Oehmke. "Credit default swaps and the empty creditor problem." *The Review of Financial Studies* 24.8 (2011): 2617-2655.

Bolton, Patrick, and Martin Oehmke. "Should derivatives be privileged in bankruptcy?." *The Journal of Finance* 70.6 (2015): 2353-2394.

Office hour:

Carletti: upon appointment, office 2-E1-06

Oehmke: upon appointment