

Seminar in Financial Intermediation

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Overview

The class meets once a week on Mondays from 2pm to 5pm in the Gruber Seminar Room. There are no classes on 2/18 and 3/18. The main assignments are the referee reports, which are due as listed in the reading list.

This is a seminar class where each week we will read and discuss papers in the area of financial intermediation. All students are required to read the papers designated as “R” before class. We encourage students to read the other papers on the syllabus as well but they are not required. One student will be assigned to present as the lead discussant for each required paper.

The central theme of the class will be liquidity creation in the financial system. We will explore its role in channeling savings to investment, its centrality to financial crises, its implications for regulation, and its effects on the transmission of monetary policy. We will cover both theory and empirics, classic and recent papers, but we will emphasize the most recent contributions to the literature as well as some of our own work. Above all, this is a very active area of research and we hope our discussions will stimulate the next wave of new ideas.

Grading

The grade will be based on participation in class (40%), referee reports (40%), and presentations (20%).

Outline

Below are the tentative course outline and reading list for each topic. We expect to update this list as we go along.

Date	Class	Topic
2/4/2019	1	Liquidity Creation
2/11/2019	2	Financial Intermediation Theory
*2/18/2019	-	*No Class
2/25/2019	3	Bank Lending and Deposits Channel

3/4/2019	4	Coexistence of Deposits and Lending
3/11/2019	5	The Liquidity Premium
*3/18/2019	-	*No Class
3/25/2019	6	Monetary Policy and Risk Premia: Evidence
4/1/2019	7	Monetary Policy and Risk Premia: Theory
4/8/2019	8	The Run-up to the Financial Crisis
4/15/2019	9	The Financial Crisis
4/22/2019	10	The Zero Lower Bound and QE
4/29/2019	11	Safe Assets
5/6/2019	12	Intermediary Asset Pricing
5/13/2019	13	Empirical Intermediary Asset Pricing

1. Liquidity Creation

- (R) Holmström, Bengt, and Jean Tirole. "[Private and public supply of liquidity.](#)" Journal of political Economy 106.1 (1998): 1-40.
- (R) Diamond, Douglas W., and Philip H. Dybvig. "[Bank runs, deposit insurance, and liquidity.](#)" Journal of political economy 91.3 (1983): 401-419.
- Brunnermeier, Markus K. "[Deciphering the liquidity and credit crunch 2007-2008.](#)" Journal of Economic perspectives 23.1 (2009): 77-100.

2. Financial Intermediation Theory

- (R) Diamond, Douglas W. "[Financial intermediation and delegated monitoring.](#)" The review of economic studies 51.3 (1984): 393-414.
- (R) Gorton, Gary, and George Pennacchi. "[Financial intermediaries and liquidity creation.](#)" The Journal of Finance 45.1 (1990): 49-71.
- Calomiris, Charles W., and Charles M. Kahn. "[The role of demandable debt in structuring optimal banking arrangements.](#)" The American Economic Review (1991): 497-513.
- Diamond, Douglas W., and Raghuram G. Rajan. "[A theory of bank capital.](#)" The Journal of Finance 55.6 (2000): 2431-2465.
- Allen F, Gale D. "[Financial contagion.](#)" Journal of political economy. 2000 Feb; 108(1):1-33.
- Allen F, Gale D. "[Optimal financial crises.](#)" The journal of finance. 1998 Aug;53(4): 1245-84.
- Rajan RG. Insiders and outsiders: "[The choice between informed and arm's-length debt.](#)" The Journal of finance. 1992 Sep;47(4):1367-400.

3. Bank Lending and Deposits Channel

- (R) Kashyap, Anil K., and Jeremy C. Stein. "[What do a million observations on banks say about the transmission of monetary policy?](#)" American Economic Review 90.3 (2000): 407-428.
- (R) Drechsler, Itamar, Alexi Savov, and Philipp Schnabl. "[The deposits channel of monetary policy.](#)" The Quarterly Journal of Economics 132.4 (2017): 1819-1876.
- Kashyap, Anil K., and Jeremy C. Stein. "[Monetary policy and bank lending.](#)" Monetary policy. The University of Chicago Press, 1994. 221-261.
- Bernanke B, Gertler M. "[Agency Costs, Net Worth, and Business Fluctuations.](#)" The American Economic Review. 1989 Mar;79(1):14-31.
- Bernanke BS, Gertler M, Gilchrist S. "[The financial accelerator in a quantitative business cycle framework. Handbook of macroeconomics.](#)" 1999 Jan 1;1:1341-93.
- Bernanke BS, Gertler M. "[Inside the black box: the credit channel of monetary policy transmission.](#)" Journal of Economic perspectives. 1995 Dec;9(4):27-48.
- Kiyotaki N, Moore J. "[Credit cycles.](#)" Journal of political economy. 1997 Apr; 105(2):211-48.

4. Coexistence of Deposits and Lending

- (R) Hanson, Samuel G., et al. "[Banks as patient fixed-income investors.](#)" Journal of Financial Economics 117.3 (2015): 449-469.
- (R) Drechsler, Itamar, Alexi Savov, and Philipp Schnabl. [Banking on deposits: Maturity transformation without interest rate risk.](#) Working Paper, 2018.
- Kashyap, Anil K., Raghuram Rajan, and Jeremy C. Stein. "[Banks as liquidity providers: An explanation for the coexistence of lending and deposit-taking.](#)" The Journal of Finance 57.1 (2002): 33-73.
- Gatev, Evan, and Philip E. Strahan. "[Banks' advantage in hedging liquidity risk: Theory and evidence from the commercial paper market.](#)" The Journal of Finance 61.2 (2006): 867-892.
- **Referee report due:** Begenau, Juliane, Monika Piazzesi, and Martin Schneider. "[Banks' risk exposures.](#)" Working paper, 2015.

5. The Liquidity Premium

- (R) Krishnamurthy, Arvind, and Annette Vissing-Jorgensen. "[The aggregate demand for treasury debt.](#)" Journal of Political Economy 120.2 (2012): 233-267.
- (R) Nagel, Stefan. "[The liquidity premium of near-money assets.](#)" The Quarterly Journal of Economics 131.4 (2016): 1927-1971.
- Drechsler, Itamar, Alexi Savov, and Philipp Schnabl. "[Liquidity, risk premia, and the financial transmission of monetary policy.](#)" Annual Review of Financial Economics 10 (2018): 309-328.

6. Monetary Policy and Risk Premia: Evidence

- (R) Bernanke, Ben S., and Kenneth N. Kuttner. "[What explains the stock market's reaction to Federal Reserve policy?](#)" The Journal of finance 60.3 (2005): 1221-1257.
- (R) Hanson, Samuel G., and Jeremy C. Stein. "[Monetary policy and long-term real rates.](#)" Journal of Financial Economics 115.3 (2015): 429-448.
- Gertler, Mark, and Peter Karadi. "[Monetary policy surprises, credit costs, and economic activity.](#)" American Economic Journal: Macroeconomics 7.1 (2015): 44-76.

7. Monetary Policy and Risk Premia: Theory

- (R) Drechsler, Itamar, Alexi Savov, and Philipp Schnabl. "[A model of monetary policy and risk premia.](#)" The Journal of Finance 73.1 (2018): 317-373.
- Stein, Jeremy C. "[Monetary policy as financial stability regulation.](#)" The Quarterly Journal of Economics 127.1 (2012): 57-95.
- **Referee report due:** Nakamura, Emi, and Jón Steinsson. "[High frequency identification of monetary non-neutrality: The information effect.](#)" Quarterly Journal of Economics (2018).

8. The Run-up to the Financial Crisis

- (R) Mian, A. and Sufi, A., 2018. "[Credit supply and housing speculation](#)" (No. w24823). National Bureau of Economic Research.
- (R) Drechsler, Itamar, Alexi Savov, and Philipp Schnabl. 2019, "[How Monetary Policy Shaped The Housing Boom](#)", Working Paper.
- Bordalo, P., Gennaioli, N. and Shleifer, A. "[Diagnostic expectations and credit cycles.](#)" The Journal of Finance, 73.1 (2018): 199-227.

9. The Financial Crisis

- (R) Brunnermeier, Markus K. "[Deciphering the liquidity and credit crunch 2007-2008.](#)" Journal of Economic perspectives 23.1 (2009): 77-100.
- (R) Acharya, Viral V., Philipp Schnabl, and Gustavo Suarez. "[Securitization without risk transfer.](#)" Journal of Financial economics 107.3 (2013): 515-536.
- Gorton, Gary, and Andrew Metrick. "[Securitized banking and the run on repo.](#)" Journal of Financial economics 104.3 (2012): 425-451.
- Gilchrist S, Schoenle R, Sim J, Zakrajšek E. "[Inflation dynamics during the financial crisis.](#)" American Economic Review. 2017 Mar;107(3):785-823.

10. The Zero Lower Bound and Quantitative Easing

- (R) Krishnamurthy, Arvind, and Annette Vissing-Jorgensen. "[The ins and outs of LSAPs.](#)" Kansas City Federal Reserve Symposium on Global Dimensions of Unconventional Monetary Policy. 2013.

- (R) Brunnermeier, Markus K., and Yann Koby. "[The reversal interest rate: An effective lower bound on monetary policy.](#)" Working paper, 2016.
- Eggertsson, Gauti B., Ragnar E. Juelsrud, Lawrence H. Summers, and Ella Getz Wold. "[Negative nominal interest rates and the bank lending channel](#)". No. w25416. Working paper, 2019.
- **Referee report due:** Wang, Olivier, 2018. "[Banks, Low Interest Rates, and Monetary Policy Transmission.](#)" Working Paper, MIT

11. Safe Assets

- (R) Gorton, Gary. "[The history and economics of safe assets.](#)" Annual Review of Economics 9 (2017): 547-586.
- (R) Moreira, Alan, and Alexi Savov. "[The macroeconomics of shadow banking.](#)" The Journal of Finance 72.6 (2017): 2381-2432.
- Gennaioli, Nicola, Andrei Shleifer, and Robert Vishny. "[Neglected risks, financial innovation, and financial fragility.](#)" Journal of Financial Economics 104.3 (2012): 452-468.
- Caballero, Ricardo J., Emmanuel Farhi, and Pierre-Olivier Gourinchas. "[The safe assets shortage conundrum.](#)" Journal of Economic Perspectives 31.3 (2017): 29-46.

12. Intermediary Asset Pricing

- (R) Brunnermeier, Markus K., and Yuliy Sannikov. "[A macroeconomic model with a financial sector.](#)" American Economic Review 104.2 (2014): 379-421.
- (R) He, Zhiguo, and Arvind Krishnamurthy. "[A model of capital and crises.](#)" The Review of Economic Studies 79.2 (2011): 735-777.
- Di Tella, Sebastian. "[Uncertainty shocks and balance sheet recessions.](#)" Journal of Political Economy 125.6 (2017): 2038-2081.

13. Empirical Intermediary Asset Pricing

- (R) Adrian, Tobias, Erkki Etula, and Tyler Muir. "[Financial intermediaries and the cross-section of asset returns.](#)" The Journal of Finance 69.6 (2014): 2557-2596.
- (R)Lucca, David O., and Emanuel Moench. "[The pre-FOMC announcement drift.](#)" The Journal of Finance 70.1 (2015): 329-371.
- Cieslak, Anna, Adair Morse, and Annette Vissing-Jorgensen. "[Stock returns over the FOMC cycle.](#)" (2018).
- He, Zhiguo, Bryan Kelly, and Asaf Manela. "[Intermediary asset pricing: New evidence from many asset classes.](#)" Journal of Financial Economics 126.1 (2017): 1-35.
- Lettau M, Ludvigson S. "[Consumption, aggregate wealth, and expected stock returns.](#)" the Journal of Finance. 2001 Jun;56(3):815-49.
- **Referee report due:** Laarits, Toomas. "[Pre-Announcement Risk.](#)" Working paper, 2018

For further reference:

*** International Liquidity Spillovers**

- (R) Du, Wenxin, Alexander Tepper, and Adrien Verdelhan. "[Deviations from covered interest rate parity.](#)" The Journal of Finance 73.3 (2018): 915-957.
- (R) Gopinath, Gita, and Jeremy C. Stein. "[Banking, Trade, and the making of a Dominant Currency.](#)" Working paper, 2018.
- Keller, Lorena. "[Capital Controls and Risk Misallocation: Evidence From a Natural Experiment.](#)" Working paper, 2018.
- Khwaja, Asim Ijaz, and Atif Mian. "[Tracing the impact of bank liquidity shocks: Evidence from an emerging market.](#)" American Economic Review 98.4 (2008): 1413-42.
- Schnabl, Philipp. "[The international transmission of bank liquidity shocks: Evidence from an emerging market.](#)" The Journal of Finance 67.3 (2012): 897-932.
- Peek, Joe, and Eric S. Rosengren. "[Collateral damage: Effects of the Japanese bank crisis on real activity in the United States.](#)" American Economic Review 90.1 (2000): 30-45.