Financial Intermediation
Department of Management
Bilkent University

Course Description: The goal of the course is to provide theoretical and practical understanding of the financial intermediation especially commercial banking. The main topics are: the economic role of financial intermediation in producing information and monitoring of borrowers; risks faced by financial intermediary’s managers and the methods through which these risks are managed; the rationale for regulation. The problem of adverse selection and moral hazard will be introduced in order to understand efficient functioning of the financial intermediaries.

Logistics: Room: MA317, phone:2901899 and e-mail:suheyla@bilkent.edu.tr. My office hours will be Mon. 14:30-16:00. No advance appointment is necessary.


Grading: Midterm (35%), Final (35%), Paper Proposal (5%), Term Paper and Presentation (20%) and In-Class Participation (5%).

Syllabus: The following is a tentative list of the course topics:

1. Introduction to Financial Intermediation
   - The Nature and Variety of Financial Intermediation
   - The Financial Services Industry: Depository Institutions (Saunders and Cornett, Chapter 2)
     - Finance: Trick or Treat?, Economist, October 23, 1999.

2. What is Special About Banks? The Role of Banks as Intermediaries
   - Why are Financial Intermediaries Special? (Saunders and Cornett, Chapter 1)
   - Asymmetric Information and Delegated Monitoring
3. Regulation

- **Rationale for Regulation and Deposit Insurance**
  - *Deposit Insurance and Other Liability Guarantees* (Saunders and Cornett, Chapter 19)

- **Capital Regulation**
  - *Capital Adequancy* (Saunders and Cornett, Chapter 20)

- **Market Discipline**

4. Major Risks in Banking

- **Interest Rate Risk I and II** (Saunders and Cornett, Chapter 8,9)

- **Liquidity Risk** (Sauders, Chapter 17)

- **Credit Risk** (Saunders and Cornett, Chapter 11)

5. Future of Financial Intermediation
• Future of Financial Intermediation and Regulation

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Term Paper Requirements

The topics of the paper should not be confined by the topics in the syllabus. You can study whatever you want within the context of financial intermediation. In the Bilkent library website, there is an On-Line Database, EBSCOhost. In this database, get into ECONLIT and type “financial intermediation,” you will find many topics. The paper could be a survey paper or an empirical one.

The final paper must be no less than ten (10) and no more than fifteen (15) pages in length. The proposal (at most two pages) describing the topic and related references should be submitted by October 13th, 2003. Revising and editing a paper is essential elements of any writing project. Consequently, you are expected to submit a draft version (draft should be very close to the final version) of the paper by December 22th, 2003.

As a reminder, “Plagiarism is the inclusion of someone else’s words, ideas, or data as one’s own work. When a student submits work for credit that includes the words, ideas, or data of others, the source of that information must be acknowledged through complete, accurate, and specific references, and, if verbatim statements are included, through quotation marks as well. By placing his/her name on work submitted for credit, the student certifies the originality of all work not otherwise identified by appropriate acknowledgments” (Drexel University Student Handbook, Section 11, Academic Honesty).

To give an idea on the topics related:
Financial Intermediation and Economic Growth
Financial Contagious Effect on Intermediation
Measurement of Agency Problem and Risk Taking at Banks
Financial Intermediation and Dollarization
The Effect of Technology on Financial Intermediation
Foreign Bank Entry and Participation in Emerging Domestic Markets
Early Warning Indicators and Bank Failures
Venture Capital in the Developing Countries
Corporate governance or Effects of Mergers and Acquisitions on Banking
Effects of legal environment on the growth of financial intermediation
Estimation of loan (deposit) demand (supply) in Turkey