
Banking and Financial Intermediation

Professor: Sergio Vicente
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Course Type: Optional
Credits: 4
Term: Second

Course Description

This course offers a rigorous overview of the economic functions of banks and financial intermediaries, integrating theoretical foundations with institutional detail and empirical evidence. We examine why banks exist, how they are funded, how they lend, how regulation shapes their behavior, and the implications of digital lending. A central theme is that banks operate in environments with information asymmetries, limited commitment, and monitoring frictions—features that generate distinct economic roles and trade-offs.

The course progresses through four interconnected modules covering: the banking function; bank funding and capital regulation; the economics of lending; and, finally, the technological change in banking.

The course combines theoretical models, institutional knowledge, and insights from empirical research, fostering both analytical understanding and applied intuition.

Objectives

General competences

- Understand the economic rationale for financial intermediation.
- Understand the role of the deposit contract.
- Evaluate how information asymmetries shape credit markets and contract design.
- Interpret banking regulation and its impact on risk-taking and credit supply.
- Assess how technological change affects credit assessment and market structure.

Specific learning outcomes

- Explain why banks issue deposits and provide liquidity.
- Derive the implications of leverage and capital requirements.
- Understand contract design under adverse selection and moral hazard.

- Evaluate the role of collateral, relationships, and covenants.
- Analyze credit rationing and lending inefficiencies.
- Assess how digital lenders and branch closures affect credit access.

Methodology

Classes combine analytical lectures, problem-based discussions, and stylized examples drawn from practice and policy. Theory is always connected to real-world institutional details and empirical findings. Students are expected to participate actively in all sessions.

Group collaboration is essential for the assignment, which links theory with applied analysis.

Evaluation criteria

Participation. 15% of the mark.

Group Assignment. 35% of the mark. A written analysis and an in-class group presentation.

Final Exam. 50% of the mark.

Only the final exam and the participation marks are carried over to an eventual re-take. There is no retake for the group assignment.

Attendance and academic integrity rules from the MSc Finance program apply.

Calendar and Contents

Module 1 — The Banking Function

- Liquidity creation and maturity transformation
- Qualitative asset transformation
- Deposit contracts and liquidity insurance
- Banks versus markets: economic roles and trade-offs

Module 2 — Bank Funding and Capital Structure

Deposits

- Deposits as a funding source
- Liquidity provision and withdrawal risk
- Structure of bank assets and liabilities

Bank Capital Structure

- Leverage and return on equity
- Risk-shifting incentives and limited liability

Capital Regulation

- Private vs. social value of leverage
- Skin-in-the-game and risk-shifting
- Optimal capital requirements
- Economic rationale for regulation

Basel Accords

- Basel I
- Basel II
- Basel III

Module 3 — Lending

- Lending and firm equity
- Collateral
- Long-term relationships
- Credit rationing
- Covenants

Module 4 — Digital Banking and Technological Change

- The economics of credit scoring
- Branch closures and real effects

Course materials consist of lecture slides and selected academic and policy papers. No textbook is required.

Reading Materials/ Bibliography/Resources

Greenbaum, S. I., Thakor, A. V., & Boot, A. W. (2019). Contemporary financial intermediation. Academic press.

Bio of Professor

Sergio Vicente is an Assistant Professor of Finance at the University of Luxembourg. He holds a PhD in Economics from New York University, an MSc in Economics from Universitat Autònoma de Barcelona, and a BSc in Economic from Universidad Carlos III de Madrid. His research focuses on financial intermediation, banking regulation, and the effects of technological change on credit markets. He previously held academic positions at Universidad Carlos III de Madrid and Queen Mary University of London. His work has been published in leading journals such as the Review of Financial Studies and the Journal of the European Economic Association.