

Finance 312
Money, Banking & Financial Markets
Unit IV Essentials

By the end of Unit IV, you should know:

How American business finances itself (relative importance of various methods, sources of funding)

Impact of financial intermediaries, intermediation on transactions costs

Essentials of asymmetric information (moral hazard v adverse selection) and impact on financial markets

Nature and types of restrictive covenants re: debt contracts

Role of capital requirements/new worth re: debt contracts

Methods of employing borrower (economic) incentives in order to affect borrower behavior re: debt contracts

How “agency theory” may be used to help explain financial crises

Nature and causes of conflicts of interest in financial markets, and public policy measures aimed at curbing/dealing with same

Nature of, advantages and shortcomings of, various approaches to dealing with/remedying conflicts of interest in financial markets

Fundamentals of bank balance sheet (focusing on most important sources, uses of funds and trends in same)

Basic measures of bank performance

Significant off-balance-sheet activities of banks (driving forces behind + effect on performance)

Bank management in relation to banks’ special needs for safety, liquidity and yield

Branching—U.S. banking history/policy regarding

Recent trends in structure of U.S. banking/financial services industry (including major indicators of, reasons behind)

Putting up/Pulling down walls (Glass-Steagall to Gramm-Leach) How much competition is too much?

“Too big to fail” nature of, reasons for, policy; benefits, drawbacks

Role of bank capital requirements vis-à-vis bank risk behavior

Know at least the major provisions and significant impact of each of the following:

McFadden Act 1927

Glass-Steagall Act 1933

Bank Holding Company Act 1956

Community Reinvestment Act 1977

DIDMCA 1980

Garn-St Germain Act 1982

Basel Accord 1988

FIRREA 1989

FDICIA 1991

Riegle-Neal Act 1994

Gramm-Leach-Bliley Act 1999

Sarbanes-Oxley 2002

A few terms/concepts worth knowing

Principal-agent problem

Adverse selection v moral hazard

Agency theory (re: asymmetric information and financial crises)

Secondary reserves

Asset transformation

Leverage ratio

Basil accord

Sweep accounts

Off-balance-sheet operations

CAMEL rating system

Edge Act Corporation

Securitization

Brokered deposits

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