

FNCE 2320/7320

International Banking

Itay Goldstein
Joel S. Ehrenkranz Family Professor
itayg@wharton.upenn.edu

Max Harris
Senior Fellow, Wharton Initiative on Financial Policy and Regulation
maxrh@wharton.upenn.edu

Course Hours Mondays and Wednesdays, 1:45-3:15pm

Course Location SHDH 1206

Teaching Assistant Joseph Wu (yuzhouwu@wharton.upenn.edu)

Office Hours Itay: By appointment
 Max: By appointment
 Joseph: Thursdays from 7-9pm via Zoom (link on course website)

Course Description

This course studies banks. There are over 4,000 banks in the United States, and they form the cornerstone of the financial system: accepting deposits, providing payments services, and making loans. These banks range from small community institutions to global systemically important banks (G-SIBs) with trillions of dollars in assets.

While banks are essential to the financial system and economy, there is a “deep fragile magic at the heart of banking,” as *Bloomberg* columnist Matt Levine once wrote. Banks engage in maturity and liquidity transformation, funding long-term risky assets with short-term riskless liabilities. This transformation can provide many benefits, but if depositors decide to cash in at once, banks can fail, bringing credit flows to a halt and sending the economy into recession.

To help banks weather stressful periods and prevent financial crises, governments provide a safety net, including deposit insurance and lender-of-last-resort facilities. And to lower the probability of such stressful periods arising, governments regulate and supervise banks. The business of banking is thus inextricably connected to public policy.

In this course, we will cover the basics of banking, the risks banks face, why banking is fragile, the structure of the government safety net, recent developments in regulation and supervision, and the rise of non-bank financial intermediation. You can get a preview of many of the topics we will discuss in this Knowledge at Wharton [podcast](#) on the future of banking, hosted by Itay Goldstein.

Classes will be a mixture of lectures and discussion, including a series of case studies throughout the semester. Your participation is important—we encourage questions and constructive comments. Please bring and display your name tent at every class.

You will get the most out of this course if you keep up with banking industry news. We encourage you to follow the financial press, in particular the *Financial Times*, *Wall Street Journal*, *The Economist*, and *Bloomberg*.

Grading

Your grade is divided into five parts:

15%	Class attendance and participation
20%	Case study write-ups
15%	Case study presentation or discussion
25%	Midterm I
25%	Midterm II

Class attendance and participation

This class depends and thrives on class participation. It is an important and essential part of this course. Because so much learning in this course occurs in the classroom, it is important that you attend every class. Low participation combined with several absences will have a significant impact on your final grade. In determining your grades, we will consider the degree to which your comments advance everyone's learning. The quality of your comments and discussions are much more important than quantity.

Case study write-ups

This class will be organized into case study groups, with six or seven people per group. There are six cases. Each group will write detailed reports on five cases; groups do not submit a writeup when presenting or discussing as described below. Each report should include 5-6 pages of analysis (typed and double-spaced) with references to an unlimited number of tables, figures, and notes attached as appendices. The report should address the suggested questions for the case study (which will be detailed on the course site at Canvas), but should not be written in the form of answers to these questions or be confined to these issues only. Rather, the report should be a complete review of the situation analyzed and address all points believed to be important for the analysis.

Case study presentation or discussion

Each group is required to present their analysis of one of the cases in class. If we run out of presentation slots, we will open up discussion slots. The presenting group should present their analysis of the case. The discussing group should present their analysis while focusing on commenting and criticizing the analysis of the presenting group (which will be made available to

the discussing group ahead of time). Each group should plan to talk for about 15-20 minutes. Both groups should be ready to answer students' questions.

We recommend using PowerPoint for both the presentation and the discussion. You can send the presentation/discussion files by e-mail, and we will load it on the computer before class. If you want to do it differently, or have other things you need for the presentation/discussion, please let us know.

It is important to have all members of both teams speak, i.e., allocate some part of the presentation/discussion to each team member.

Midterms

Both midterms will take place in class and are closed book. There is no final exam. You will be tested on both the concepts and methods studied in this course. The exams are intended to be time sensitive.

Code of Ethics

Submitted assignments for grading should be your own or your team's own work only.

The cases in this course involve actual companies. You may use firm specific or market data that are publicly available for your analysis. You cannot use old notes, handouts, or solutions to the cases from previous or other sections of this course or similar courses elsewhere for your written reports and class discussions.

In addition, you cannot use generative AI (e.g. ChatGPT) to complete any submitted work.

Failure to observe these rules may result in an automatic failing grade for the course.

Attendance and class etiquette

Students are expected to arrive on time for class. Once in class, students should remain until the class is completed. Arrivals and departures during class time interfere with the educational process and are not fair to the other students.

Seating chart and name cards

Please display your name cards in class at all times so that we can get to know you and evaluate your class participations. Please write your name in large, dark letters on the name cards. Please choose your seat during the first week and use the same seat for the remainder of the term.

Canvas

The course site at Wharton Canvas contains material essential for this class as well as the most updated information and announcements for the course. Canvas is the information center for the course. Please check the course site regularly.

Readings

The textbook for this course is *Financial Institutions Management: A Risk Management Approach* (11th edition) by Anthony Saunders, Marcia Cornett, and Otgo Erhemjamts. An abridged version of the textbook with the chapters that we will cover is available for a reduced price; you can access the abridged ebook [here](#) or purchase a hardcopy at the bookstore. The textbook is abbreviated as SCE in the reading list below.

Other readings for this course are available online and are linked below.

Note that the reading list may be updated during the semester.

Schedule

Class	Date	Subject	Readings
<i>I. Overview of banking</i>			
1	1/22	Course introduction and overview of banking (IG)	No readings
2	1/27	Banking history and the industry today (MH)	<ul style="list-style-type: none">SCE chapter 2 Optional <ul style="list-style-type: none">Richard S. Grossman, <i>Unsettled Account: The Evolution of Banking in the Industrialized World since 1800</i>, 2010, chapters 9-10.
3	1/29	Bank financial statements (MH)	<ul style="list-style-type: none">SCE appendices 2a and 2b
<i>II. Risks and crises</i>			
4	2/3	Risks I: overview and liquidity risk (IG)	<ul style="list-style-type: none">SCE chapters 7 and 12 Optional <ul style="list-style-type: none">Nobel Prize Committee, “The Prize in Economic Sciences 2022: Popular Science Background.”Nobel Prize Committee, “The Prize in Economic Sciences 2022: Scientific Background.”
5	2/5	Global financial crisis (IG)	<ul style="list-style-type: none">Markus K. Brunnermeier, “Deciphering the Liquidity and Credit Crunch 2007-

			2008 ,” <i>Journal of Economic Perspectives</i> , 2009. • FDIC, Crisis and Response: An FDIC History, 2008-2013 , 2017, chapter 1.
6	2/10	Case study (IG)	• “The End of Credit Suisse”
7	2/12	Risks II: market and operational risk (MH)	• SCE chapter 15
8	2/17	Case study (IG)	• “Lehman Brothers: Too Big to Fail?”
9	2/19	Risks III: credit and interest rate risk (MH)	• SCE chapters 8-10
10	2/24	Case study (MH)	• “The Sudden Implosion of Silicon Valley Bank”
11	2/26	Guest speaker	
12	3/3	Midterm I	
	3/5	No class: MBA core exams	
	3/10	No class: Spring break	
	3/12	No class: Spring break	
III. Safety net			
13	3/17	Deposit insurance (IG)	• SCE chapter 20 Optional • FDIC, “Options for Deposit Insurance Reform,” 2023
14	3/19	Lender of last resort (MH)	• Gary Gorton and Andrew Metrick, “The Federal Reserve and Panic Prevention: The Roles of Financial Regulation and Lender of Last Resort,” <i>Journal of Economic Perspectives</i> , 2013. • Susan McLaughlin, “Lessons for the Discount Window from the March 2023 Bank Failures,” <i>YPFS</i> , 2023.
15	3/24	Case study (MH)	• “Fighting the Financial Crisis of 2008”
IV. Regulation and supervision			
16	3/26	Regulatory structure and capital regulation (MH)	• SCE chapter 21 Optional • Congressional Research Services, “Who Regulates Whom? An Overview of the U.S. Financial Regulatory Framework,” 2023. • John R. Walter, “US Bank Capital Regulation: History and Changes Since the Financial Crisis,” <i>Federal Reserve Bank of Richmond Economic Quarterly</i> , 2019.

17	3/31	Liquidity requirements, stress tests, and living wills (IG)	<ul style="list-style-type: none"> Richard J. Herring and Til Schuermann, “Objectives and Challenges of Stress Testing,” <i>Handbook of Financial Stress Testing</i>, 2022. <p>Optional:</p> <ul style="list-style-type: none"> Martin Gruenberg, “The Orderly Resolution of Global Systemically Important Banks: An Update from the FDIC,” April 10, 2024.
18	4/2	Basel III (MH)	<ul style="list-style-type: none"> David Wessel, “What is bank capital? What is the Basel III Endgame?” Brookings, March 7, 2024 Michael Barr, “The Next Steps on Capital,” September 10, 2024.
19	4/7	Guest speaker	
20	4/9	Case study (MH)	<ul style="list-style-type: none"> “Barclays and the LIBOR Scandal”
V. Non-bank financial intermediation and fintech			
21	4/14	Shadow banking (IG)	<ul style="list-style-type: none"> SCE chapter 5 <p>Optional</p> <ul style="list-style-type: none"> Stijn Claessens, “Nonbank Financial Intermediation: Stock Take of Research, Policy, and Data,” <i>Annual Review of Financial Economics</i>, 2024. “Open-end Funds vs. ETFs: Lessons from the COVID Stress Test,” <i>Money and Banking</i>, January 18, 2021. “Fix Money Funds Now,” <i>Money and Banking</i>, January 4, 2021. “Liquidity Transformation and Open-end Funds,” <i>Money and Banking</i>, February 20, 2017.
22	4/16	Fintech (IG)	<ul style="list-style-type: none"> Itay Goldstein, Wei Jiang, and G. Andrew Karolyi, “To FinTech and Beyond,” <i>Review of Financial Studies</i>, 2019. Tobias Berg, Andreas Fuster, and Maju Puri, “FinTech Lending,” <i>Annual Review of Financial Economics</i>, 2022. <p>Optional</p> <ul style="list-style-type: none"> Igor Makarov and Antoinette Schoar, “Cryptocurrencies and Decentralised Finance (DeFi),” <i>BIS Working Papers</i>, 2022.

23	4/21	Case study (IG)	• “Breaking the Buck”
24	4/23	Midterm II	