# Economics of Financial Intermediaries

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***COURSE AIMS AND INTENDED LEARNING OUTCOMES***

The course examines the structure and functioning of the financial system. After having clarified the relationships between the financial system and the rest of the economy, the course deals with analysing the various types of intermediaries, the activities carried out by them, the factors differentiating one type of intermediary from another, and the different financial markets and main instruments traded therein. The technical and economic characteristics of the main products and services offered by banks will also be illustrated.

At the end of the course, the student will have become familiar with the analytical and theoretical tools needed for understanding how the financial system operates as a whole and the different activities carried out by market participants. In addition, the student will understand the nature and the characteristics of bank contracts; the technical aspects of the process of fundraising, with a distinction made between retail and wholesale funding; the means for evaluating the creditworthiness of bank customers, and therefore, the technical aspects of financing transactions; and the array of banking services offered to customers, considering the growing importance that such services have taken on in banking in recent years.

***COURSE CONTENT***

*The financial system*

– the fundamental scheme of financial intermediation, distinction between a direct and an indirect intermediation circuit;

– the concept of a financial balance, distinguishing between individuals who accumulate financial assets, individuals who go into debt and persons who are intermediaries between the two categories;

– the role of information in financial decisions;

– the fundamental reasons for household savings, as well as the criteria on the basis of which households build their portfolios of financial assets;

– the criteria that orient the decisions of companies in relation to the mix of their funding sources;

– the role and objectives of financial system regulation;

– the types of financial contracts through which purchasing power is transferred between economic agents;

– the reasons for the existence of financial intermediaries;

– the time value of money, microeconomic and macroeconomic aggregates that determine the transfer of resources through the financial system;

– the notions at the basis of the formation of interest rates, what is intended for the structure of interest rates by maturity and the relationship between interest rates and risk;

– the importance of the system of payments in modern economies and the process of the bank's "creation" of money: from the monetary base input by the central bank to the growth of deposits through the multiplier mechanism, with particular reference to the relationship between the multiplier and behaviour of banks and the public.

– the reasons that explain the existence and importance of central banks as well as the monetary policy implemented by central banks;

– the different markets that make the transfer of financial resources possible and the main instruments traded therein.

*Financial institutions*

– the peculiar aspects of the role played by banks within the financial system and namely, what distinguishes banks from other categories of financial intermediaries and the different risks related to the lending function;

– the regulatory framework that defines the rules for the activity carried out by banks and the oversight thereof;

– the principal categories of non-bank financial intermediaries;

– the parties who operate in the secondary market: brokers and dealers;

– the essential characteristics of mutual investment funds and other collective investment entities;

– the importance of pension funds in modern financial systems;

– the essential characteristics of insurance companies in their role as financial intermediaries.

*Bank transactions*

– classification of banking contracts, the three large areas of bank operations, namely, the gathering of funds, the use of funds in lending and the supply of payment and funds management services;

– the placement of transactions within a bank's financial statements and the contribution made by the transactions to the bank's earnings;

– the means used by banks for sourcing financial resources, distinguishing between retail funding and wholesale funding;

– the technical forms of deposits with a monetary function and deposits with function of providing a return on their use;

– wholesale transactions, distinguishing those placed into effect by the bank as a counterparty to the central bank, other banks, or institutional investors;

– the key features of surveys carried out by banks for evaluating the extent of creditworthiness of their customers;

– the technical aspects of financing transactions, as distinguished in relation to the purposes of the transactions and the maturity of the transactions;

– the services offered to customers, distinguishing between payment services, custody services and funds management services, and identifying the principal cost elements thereof;

– funds management services, and how they may represent for customers, instruments for investing the customers' available funds as an alternative to time deposits;

– the characteristics of several banking services specifically addressed to companies, for example, cash management and the settlement of commercial receivables through interbank procedures that make use of magnetic supports for the management of collection orders.

***READING LIST***

P. Gualtieri, *Teoria dell’intermediazione finanziaria,* EGEA, 2021, 5th edition.

***TEACHING METHOD***

The course will be taught through lectures, with the support of slides.

***ASSESSMENT METHOD AND CRITERIA***

The exam includes a written test (consisting of open-ended questions and an application part) on all the topics addressed during the course. The open-ended questions and the application part contribute to 80% and 20% of the final mark, respectively, provided that to pass the exam. students will have to obtain a pass mark in both parts. To this end, the assessment will be based on the relevance of the students’ answers, their appropriate use of specific terminology, a reasoned structure of the speech, and for the application part, the correct formulation and performance of the exercises.

In case of a positive result of the written test, students may choose to take an oral exam to supplement the mark of the written test, which will also focus on

 During the course there may eventually be some mid-term tests that, if they are successfully completed, will permit to pass the examination.

***NOTES AND PREREQUISITES***

Being an introductory course, there are no prerequisites related to the contents.

Further information can be found on the lecturer's webpage at http://docenti.unicatt.it/web/searchByName.do?language=ENG, or on the Faculty notice board.