

RPRD 803
Financial Regulation
Fall 2017 (preliminary version of August 28, 2017)

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Course description

This course discusses current theory, practice and unresolved problems in financial regulation, especially in relation to controlling risks in financial institutions and the financial system. It will cover banking and financial crises, market failures and the reasons for regulation, capital regulation, liquidity regulation, macroprudential regulation, and the regulation of transparency and financial market infrastructure.

Classes

The normal class times are Tuesday from 10:00 to 11:30 and Wednesday from 8:30 to 10:00.

Evaluation

There will be **four** assignments worth **10 per cent each**, and a presentation (worth **20 per cent**) and paper (worth **40 per cent**) on a specified topic that will require you to show that you have mastered key elements of the course.

The assignments

The assignments are as follows:

Topic	To Be Given Out	Due (at the beginning of class)
Debt dynamics and crisis prediction	September 13	September 20
Capital regulation	October 4	October 11
Liquidity regulation	October 18	October 25
Macroprudential regulation	November 1 (covers material through November 8)	November 15

The paper and presentation

The paper, which will count for **40** per cent of your class grade, is to be a maximum of 5000 words (roughly 25 pages) in length, double-spaced and in a normal-sized font (no larger than 12). Students can follow the Queens' style guide or another in matters like footnotes, bibliography, etc. However, whatever style guide is chosen, it is important to be consistent. Be sure to present your ideas clearly, with a focused introduction and conclusion. As well, you will be marked on grammar.

There are fourteen pre-selected topics (*subject to revision*) for the paper. Every student must write on a different topic.

Six of the paper topics answer the question “what is the best way to regulate this type of shadow bank?” The five types of shadow banks available as topics are: money market mutual funds; repo markets; the securitization process; finance companies; financial commercial paper and asset-backed commercial paper; and investment funds/asset managers. The paper will have to cover:

- What are the market failures?
- What is the relationship of the shadow bank with the banking system?
- What are the options for macroprudential regulation and which do you believe is best? Why? **(the key question)**

Note: the questions can be dealt with in any logical order.

The other eight topics are related to the following:

- market discipline and Basel pillar 3
- structural regulation and/or ring-fencing (Volker, Vickers, Liikanen, etc.)
- government involvement in mortgage insurance (or housing finance)
- macroprudential regulation of transparency in securities markets
- cross-border implementation of: (i) capital and liquidity requirements or (ii) resolution regimes
- cross-sector or cross-border leakiness of actual or potential Canadian macroprudential policies and what can and should be done about it
- banking competition policy and its relationship to financial stability
- macroprudential regulation of FinTech (or some parts of it)

The **key question** for these six topics is “What are the options for financial regulation that have been proposed to deal with this area (including doing nothing, or keeping the status quo) and which is best from an economics point of view?” Discussion of market failures will be important.

In addition to the main questions/areas of discussion for **each topic** (of the fourteen above), the paper should **also** cover, at least briefly, any of the following questions that are relevant to the topic:

- Is there a need for capital regulation? Why?
- Is there a need for liquidity regulation? Why?
- Are there procyclical concerns? Why?
- Are there other concerns?
- What is the evidence of these needs and concerns from the global financial crisis?
- What has been recommended by the Financial Stability Board?
- What has been adopted in the United States? Canada? (and elsewhere, if you want, depending on the topic)

In exceptional circumstances, a topic proposed by a student may substitute for one of the above. (For example, a PhD student can substitute something related to a proposed thesis topic.) Please consult the instructor as soon as possible if you would like to substitute another topic. Topics will be chosen on **September 20**. Please come with the ranking of your three or four top choices. Some introductory references for most topics can be found in the reference list for the course.

You are strongly encouraged to discuss your paper with the instructor at least twice. The first time should be in late September or early October. The second time should be in early November.

Slide presentations of 20 minutes in length (this limit is binding), worth **20 per cent**, will take place in the classes on *at least three of the following dates: November 15, 21, 22 and 28*. These presentations must be **e-mailed to the class** by midnight on the **Sunday prior** to the presentation.

It is strongly recommended that the paper be all but complete before the slide presentation is prepared. This will allow the greatest clarity in the presentation and will allow the student to best take the feedback from other students and the instructor into account in revising the paper.

The paper is due by e-mail to the instructor by **Friday December 1 at noon**.

Note: The instructor will only be in Kingston on Tuesdays, Wednesdays and some Thursdays, but do not hesitate to contact him by e-mail anytime. As well, discussions by phone can be arranged by e-mail.

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