



Bristol Business School

Module handbook 2005-2006

Module Code: UPEN48-15-M

Module Title: Principles and Practice of Banking

School of Economics

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Contents

1. INTRODUCTION	1
2. LEARNING OUTCOMES	2
3. ORGANISATION OF THE MODULE	3
3.1. TEACHING AND LEARNING METHODS	3
3.2. STUDENT RESPONSIBILITIES	3
3.3. STAFF RESPONSIBILITIES.....	3
3.4. FACILITIES AND RESOURCES	4
4. LECTURE PROGRAMME	5
5. SEMINAR DETAILS.....	5
6. ASSESSMENT OFFENCES – CHEATING, COLLUSION AND PLAGIARISM	7
6.1. DEFINITIONS	7
6.2. AVOIDING CHEATING IN EXAMINATIONS	7
6.3. AVOIDING COLLUSION.....	8
6.4. AVOIDING ASSESSMENT OFFENCES	8
7. ASSESSMENT	8
7.1. REGULATIONS	8
7.2. FIRST OPPORTUNITY	9
7.3. GUIDELINES	9
7.4. SECOND OPPORTUNITY	
8. SOURCE MATERIAL	11

1. Introduction

The overall purpose of this 15-credit module is to introduce the theory and practice of banking, seen from an economic viewpoint. The module will concentrate especially on the intermediary role of banks and the risks to which this gives rise.

The module leader is Dr Peter Howells.

2. Learning Outcomes

By the end of this module the student should be able to:

- Show a critical awareness of the latest literature and current developments in the economic analysis of banking.
- Show a critical awareness of the principles of financial intermediation and the risks to which they give rise.
- Understand the most-recently developed risk assessment techniques employed by banks and the strategies to which they give rise.
- Understand the current debates about the appropriate regulatory framework and the principles and issues which underlie regulation.

3. Organisation of the Module

3.1. Teaching and Learning Methods

The learning process depends heavily upon the interaction and participation of students in seminar discussions. The module will make use of practical examples and/or case studies drawn from the business world as illustrations designed to develop understanding of the economic environment of financial markets and services. Tutors will provide short lectures, briefings, workshops and guidance for reading and further study. The nature of the module, however, is such that **attendance in seminars is not only formally required but is vitally helpful for success in assessment**. We shall keep a record of attendance, and if, for some reason, you are unable to attend we shall be grateful if you will let us know.

3.2. Student responsibilities

Lectures

You should be aware that lectures are designed to provide a framework for discussion and analysis. Lectures provide insights into issues and debates, as well as highlighting the importance of people, places and events. In other words, the lectures set out the context in which a more detailed examination is undertaken in the seminars. Your responsibility therefore is to attend these lectures on a regular basis. **Failure to do so may seriously affect your ability to keep abreast of the course and hence impact on your final grade.**

Seminars

A seminar is designed to enable students to investigate an issue or theme in greater detail. The onus is on you to keep up to date with the reading on a weekly basis. **Seminars work better if everyone has done some preparatory reading, have thought about interesting questions to ask and come along prepared to discuss the theme in question.** Do not leave it to others to do the work. As you can see the reading lists for seminars are extensive. The purpose is two fold: to give an idea of what is available in our library; and to introduce various opinions expressed by a number of authors. This does not mean that just because a book is not listed here that it may not be relevant to the course. **We would encourage you from the outset to explore the wide variety of material contained in our library, which can be equally useful when preparing for a seminar or writing an essay.** Equally important, you are strongly encouraged to use journal articles, which publish the latest research. Articles are extremely useful because they concentrate on a specific issue or debate. They get to the heart of a debate and therefore provide insight into complex issues. So get into the habit of using the journals for all facets of your work.

Library

A final point concerns the library system. You are expected to use the full potential of the UWE library system. As a multi-campus institution, resources are scattered. Books and periodicals may be housed on only one site. So be prepared, especially when preparing essays, to use the inter-site loan system or (better still) travel to the other sites to obtain relevant material.

3.3. Staff responsibilities

Staff will endeavour to produce useful, interesting and thought provoking lectures, which are well informed by up-to-date secondary literature and, where appropriate, by visual aids. In seminars tutors will help to generate and sustain discussion while at the same time recognising the students' responsibility to stimulate debate. They will also try their best to return work, with detailed feedback, within three working weeks of the submission date. Staff will be available to discuss your work on a one-to-one basis at specified times. In addition, they will make time to discuss issues raised by the group in the regular weekly seminar slot.

3.4. Facilities and Resources

As well as the usual library and on-line resources you will also have access to the Blackboard site for this module on the University intranet.

You are strongly recommended to read a daily newspaper with a serious business/finance section. The *Financial Times* is the obvious choice but less specialised newspapers also have good finance sections.

Most newspapers are available on the internet as well. The *Financial Times* website is:

www.ft.com

The current day's news is generally available for free but one of the *FT's* big advantages is its huge archive and sophisticated search procedures. Unfortunately, these require a subscription (but maybe free from a UWE terminal. I subscribe anyway, so I can't easily check whether this is the case).

Other websites which are potentially very useful are:

The Bank of England (www.bankofengland.co.uk)

The European Central Bank (www.ecb.int)

The Bank for International Settlements (www.bis.org)

The Association for Payment Clearing Services (www.apacs.org.uk)

The Building Societies' Association (www.bsa.org.uk)

British Bankers' Association (www.bba.org.uk)

Office of National Statistics (www.nationalstatistics.gov.uk)

4. Lecture programme

W/beginning

- | | |
|---------|--|
| 23.1.06 | 1. Defining a bank. Banks and NDTIs |
| 30.1.06 | 2. Principles of intermediation |
| 6.2.06 | 3. Banking structures |
| 13.2.06 | 4. <i>Reading/seminar preparation week (see note in §5)</i> |
| 20.2.06 | 5. Risks in banking. Risk measurement and control techniques |
| 27.2.06 | 6. Regulation of banking activity I – the central bank and domestic regulation |
| 6.3.06 | 7. International regulation – Basle I and Basle II |
| 13.3.06 | 8. Regulation and the growth of off-balance sheet activity |
| 20.3.06 | 9. Bank failures |
| 27.3.06 | 10. The power and influence of central banks |
| 3.4.06 | 11. Measuring bank output and efficiency |
| 1.5.06 | 12. How competitive is the banking sector? |

5. Seminar details

Full details of the recommended reading are given in section 8. (Unless otherwise stated, any reference to Heffernan applies to *Modern Banking*).

In the first three weeks, seminars will take the form of general discussion led by me. With effect from 20.2.06 they will take the form of student presentations followed by discussion.

w/b

- | | |
|---------|--|
| 30.1.06 | What, if anything, is distinctive about banks as financial intermediaries?

Heffernan, ch.1
Goodhart, (1989) ch.V
Howells and Bain, 2.3-2.5
Diamond (1984 and 1991)
Greenbaum and Thakor ch.2 and 3 (part) |
| 6.2.06 | Why are people willing to pay for the services of financial intermediaries?

Heffernan, ch.1
Goodhart, (1989) ch.V
Howells and Bain, 1.2-1.4
Diamond (1984 and 1991)
Greenbaum and Thakor ch.3 |

Note: it is possible that I will be unavailable in the w/b 13.2.06. Hence my suggestion that you take the opportunity to take a close look at one particular banking system. I would anticipate that the internet will be a major source of info.

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|---------|---|
| 20.2.06 | Outline the key features of any banking system with which you may be familiar. (You may find it useful to compare with the model of 'universal' banking traditional in continental Europe or the differentiated model of the USA)

Heffernan, chs 1, 5, 6
Howells and Bain, 2.3, 3.2, 4.2, 5.2, 6.2, 7.2
Greenbaum and Thakor, ch.3 |
|---------|---|

- 27.2.06 Explain what is meant by interest risk and payment risk and why banks may be exposed to them. What can they do to limit their exposure?
- Heffernan, ch.3
Howells and Bain, 2.3
Greenbaum and Thakor, ch.4
Sheppard.
- 6.3.06 Why do banking systems need a central bank?
- Heffernan, ch.5
Goodhart (MIU) ch.VIII
Buckle and Thompson, ch.17
Goodhart, (CBFS)
- 13.3.06 In what ways do the proposals under the 'Basle II' tackle the deficiencies identified in the 'Basle I' arrangements?
- Heffernan, ch.4
Danielsson et al.
Bank for International Settlements website
www.baselalert.com
www.bis.org
www.fsa.gov.uk (search on 'Basel II' – it changes all the time).
- 20.3.06 It is often said that regulation acts as a tax on banking activity. Can you explain this and show how banks might engage in off balance sheet activity in order to minimise the impact of this tax?
- Greenbaum, chs. 7 and 8
Howells and Bain, ch. 23.5
- 27.3.06 Why do banks fail? Discuss the merits/weaknesses of various approaches to bank failure.
- Heffernan, ch. 7
Howells and Bain, ch. 7
- 3.4.06 'Central banks are monopoly suppliers of liquidity and face the usual monopolist's choice of setting price or quantity'. Discuss this proposition with reference to power of central banks to implement monetary policy.
- Goodhart, *Econ. Jnl*, 1989
Goodhart, *Econ. Jnl*, 1994
King, *BEQB*, 1994
- 1.5.06 Why are the concepts of x-efficiency, scale economies and scope economies difficult to apply empirically to banks?
- Heffernan, ch.9
Altunbas *et al* in *Jnl of Money Credit and Banking* (2001)
Altunbas *et al* in *EER* (2001)
Greenbaum and Thakor, ch.15

6. Assessment Offences – Cheating, Collusion and Plagiarism

Please read carefully the following definitions of cheating, collusion and plagiarism. These are serious offences and it is very important that you know how to avoid them. The University procedures for dealing with allegations of assessment offences are laid out in the **UWE Student Handbook**, and in the Academic Regulations (E12a).

6.1. Definitions

6.1.1 Cheating (in the widest sense of the word) is the use of unfair means of presenting work for assessment. It is a serious academic offence as it prevents examiners from being able to make a realistic judgement of a student's knowledge, understanding, ability and/or creativity.

6.1.2 Cheating in an examination includes:

- a) taking aids (eg notes, books, mobile phones, equipment) into an examination room which are not authorised for use in that examination
- b) copying another student's work
- c) seeking or obtaining help from another person
- d) assisting another student with an examination

6.1.3 Collusion includes:

- a) presenting work as one's own which is derived from unauthorised collaboration with others
- b) assisting another person by giving substantial help with ideas or with text which are not then acknowledged.

6.1.4 Plagiarism is a form of theft. It includes:

- a) the quotation of another person's words without quotation marks
- b) the quotation of another person's words or ideas without acknowledgement
- c) the use of another person's ideas without acknowledgement
- d) the use of another person's facts or experimental results without acknowledgment.

6.1.5 It is also an assessment offence to prevent another student from being able to be examined properly.

6.2. Avoiding Cheating in Examinations

6.2.1 Students can ensure that they do not unwittingly cheat in examinations if they

- a) take into an examination only those items which have been authorised. Particular care must be taken with programmable calculators and dictionaries which can only be used if specifically authorised.
- b) follow carefully the "Instructions to Candidates" (Examination Regulation 2) and communicate with no-one except an invigilator during an examination.

6.3. Avoiding Collusion

6.3.1 Most collusion is unintentional. Students are often required to work on a topic or activity in groups and then to produce individual work for assessment. They must be careful to follow the instructions regarding the assessment. Some assessments may require the group to produce joint ideas or proposals, whereas others might assign this initiative to the individual. Unless the instructions specifically require a group report, students must produce their own written work without the help of other people.

6.3.2. It is a normal part of the learning process for students to discuss ideas for written work with each other. However, students should be cautious about lending essays, computer files or laboratory reports to other students in order to avoid the danger of the second student producing an essay or laboratory report similar to that of the first student.

- 6.3.2. Discussion between students can be a good way of learning: however, students should be careful to ensure that they think out and write the detail of their essays/assignments by themselves.

6.4. Avoiding Assessment Offences

- 6.4.1. In order to produce good essays, assignments, etc, it is expected that students will base their ideas on several sources and will quote from them. Plagiarism is often a result of poor academic practice rather than a deliberate attempt to cheat. Good academic standards require that -
- a) any phrase or longer text which is taken from another author must be quoted precisely using quotation marks and the bibliographical reference
 - b) where an author's text is summarised the summary must be in the student's own words. Merely changing the order of words or using synonyms does not form an acceptable summary
 - c) any facts, tables, diagrams or experimental results taken from another person must be acknowledged and referenced
 - d) any ideas or conclusions taken from another person must be duly acknowledged and referenced.

7. Assessment

7.1. Regulations

In order to pass this module you need to obtain an overall mark of 50% or above. In addition you need to obtain at least 40% in both assessment components – the exam (Component A) and the written assignment (Component B). Component A will contribute 50% of the total module marks and Component B will contribute 50% of the total module marks.

If you do not get 50% or more in the **module**, you will be referred in each **component** for which your mark is below 50%.

If you do get 50% or more in the module but one of your components is below 40% you will be referred in that component.

If the minimum mark of 40% is not achieved in both required components of assessment (and the other is passed) at the first assessment opportunity the mark for the referred component will be limited to 50%. This is described as a capped mark. The mark for the other component will not be capped nor will the overall module mark. Where a component of assessment is not passed at the second assessment opportunity and a student makes another attempt at the module, the overall module mark achieved at the second attempt will be capped at 50%.

All students referred in a component will have to do the same referral work.

Further information about assessment may be found in the University's Student Handbook.

7.2. First Opportunity

Component A is an unseen two hour examination in which two questions must be answered from a choice of six.

Component B of the assessment for the module consists of an essay chosen from the following list:

1. Take any three risks to which banks are subject and show how banks can limit their exposure.

2. Review critically the proposals known as 'Basle II' and show how regulations of this kind act as a tax on banks.
3. Why do banks fail? Illustrate your answer by reference to two individual cases.?

Guideline length: not more than 2000 words.

This work must be handed in by **2pm on Thursday 28 April** to the Reception of BBS. Please make sure to retain a receipt for your work. Please note also that the University has very strict rules about handing in work, and that if you are late in doing so you may suffer severe penalties.

7.3. Guidelines

Assessment criteria for component A

The criteria for assessment include: evidence of an understanding of relevant analytical techniques and theories; the ability to apply them effectively. Students will be expected to demonstrate their knowledge of economic concepts, theories and principles as well as quantitative concepts relevant to the analysis of bank behaviour,

Assessment criteria for Component B

The criteria for assessment include: evidence of an understanding of relevant analytical techniques and theories; the ability to apply them effectively; the ability to gather, organise, analyse and present evidence and data in a coherent and concise fashion, employing a range of appropriate and properly referenced material. Students will be expected to demonstrate their knowledge of economic concepts, principles and theories as well as to make effective use of statistical material, where relevant.

General Assessment Criteria:

The following section provides guidance on the criteria employed for assignments which receive a distinction, pass or fail award.

Distinction level (75%): Assessed work which gains a distinction will demonstrate a standard of writing and critical analysis which could be considered for publication in journals within the appropriate field. To be judged of distinction quality in specific assignments or in the overall performance for a module, assessed work will demonstrate all that is required for the PASS band and will also demonstrate a range of the following characteristics, as determined by the relevant subject specialists and programme team. Care must be taken to ensure that this process does not invite subject specialists to ignore or devalue these generic criteria:

- a) creativity in developing new approaches and interpretation to existing or new areas of knowledge and/or innovations in practice
- b) original critical analysis which reviews the validity of theoretical perspectives and methodologies
- c) critical understanding of an appropriate range of research methodologies as well as the ability to explore the limitations of existing research strategies
- d) creativity in exploring the limits of current knowledge and contributing to the development of theory, research and practice
- e) work supported throughout by appropriate evidence
- f) correct use of language, unambiguous expression and clear presentation

Pass (50%): To be judged as a pass in specific assignments or in the overall performance for a module, assessed work will demonstrate the following characteristics as determined by the relevant

subject specialists and programme team. Care must be taken to ensure that this process does not invite subject specialists to ignore or devalue these generic criteria:

- a) a comprehensive understanding of existing areas of relevant knowledge and practice and an awareness of gaps and weaknesses of such knowledge
- b) a standard of objective critical analysis which demonstrates academic rigour using relevant concepts and knowledge
- c) a creative attempt to contribute to the ongoing development of theory, research and practice
- d) most substantive points are supported by appropriate evidence, with avoidance of unfounded generalisations
- e) an ability to structure and organise material in a broadly logical manner with a clear development of ideas
- f) clear evidence of thorough reading of core texts
- g) largely accurate and complete referencing using an appropriate citation system
- h) largely correct use of language, unambiguous expression and clear presentation

Fail: Assessed work which is judged to fail will demonstrate a significant number of the following characteristics, as determined by the subject specialists and programme team. Care must be taken to ensure that this process does not invite subject specialists to ignore or devalue these generic criteria:

- a) insufficient critical analysis of the topic
- b) limited critical review of existing areas of knowledge and/or practice
- c) disorganised structure with incorrect or inappropriate sequencing of content/ materials
- d) failure to develop a clear line of argument
- e) inadequate use of supportive evidence
- f) disproportionate reliance on unsupported generalisations
- g) evidence of insufficient appropriate reading and reflection
- h) inaccurate referencing
- i) poor use of an appropriate citation system
- j) inappropriate or poorly executed research methodologies
- k) unclear presentation

7.4. Second Assessment Opportunity (Referral)

You will not need to attend classes in order to undertake re-assessment. The reassessment requirements for each component of assessment for this module are as follows. Please note that the rules governing the reassessment of M level modules are contained in the Modular Assessment Regulations. If you are reassessed for either component in the module your grade will normally be capped at 50%. Reassessment will take place in time for the next postgraduate examination board following the notification of your first assessment result. This will normally mean that if you are reassessed following the June examination board you will submit reassessment in August.

Reassessment for Component A

If you are required by the examination board to be reassessed in Component A of the assessment, you will be asked to sit a further examination, similar to that required and subject to the same criteria as in the first opportunity

Reassessment for Component B

If you are required by the examination board to be reassessed in Component B of the reassessment, you will be required to submit an essay selected from the following list by a date to be specified.

The criteria will be the same as for the first assessment opportunity.

1. Why do we need banks?
2. Explain what is meant by 'value at risk' and how it may help banks to measure their risk exposure.

8. Source Material

You will be expected to consult a wide range of books, journals and Internet sites in reading for this module. One of the principal skills you will acquire at Masters level is the ability to carry out your own library search, uncovering a range of different perspectives on an issue under consideration. There is no single text which covers the whole module. The 2005 book by Heffernan covers most of the topics in the first half of the course. The book by Howells and Bain has something to say on virtually all topics but it is an undergraduate text and is not really adequate except as a starting point. On the later topics, a number of publications by Goodhart are useful and we shall use a number of articles from the *Bank of England Quarterly Bulletin*. Listed below are the full details of books and articles referred to in the seminar list, together with a few additional items which are interesting and relevant.

Full details of books and articles (see section 3.4 for a guide to useful websites)

Books

- Bank for International Settlements, *The Lamfalussy Report* (Basle, 1990)
D Chew (ed), *New Developments in Commercial Banking* (Blackwell, 1991)
J Dermine, *European Banking in the 1990s* (Blackwell, 1995)
J Dermine and Y F Bissada, *Asset and Liability Management: A Bankers' Guide to Value Creation and Risk Control* (FT-Prentice Hall, 2002)
CAE Goodhart, *The Central Bank and the Financial System* (Macmillan, 1995)
CAE Goodhart, *Money, Information and Uncertainty* (Macmillan, 2e, 1989)
CAE Goodhart, *Monetary Theory and Practice* (Macmillan, 1984)
S I Greenbaum and A J Thakor, *Contemporary Financial Intermediation* (Dryden, 1996)
S Heffernan, *The Theory and Practice of Banking* (Wiley, 1996)
S Heffernan, *Modern Banking* (Wiley, 2005)
Peter Howells and Keith Bain, *The Economics of Money, Banking and Finance* (Pearson Education, 2e, 2002).
A Mullineux, *Financial Innovation, Banking and Monetary Aggregates* (1995)
D Sheppard, *The Payments System* (Handbook no. 8 in the Centre for Central Banking Studies. Downloadable from the Bank of England website)
J Stiglitz and B Greenwald, *Towards a New Paradigm in Monetary Economics* (Cambridge UP, 2001)

Articles

- Y Altunbas, L Evans and P Molyneux, 'Ownership and Efficiency in Banking', *Jnl of Money, Credit and Banking*, 2001, 33 (4), 926-54
Y Altunbas, E Gardener, P Molyneux and B Moore, 'Efficiency in European Banking', *European Economic Review*, 2001, 45, 1931-1955
E Baltensberger, 'Alternative Approaches to the Theory of the Banking Firm', *Journal of Monetary Economics*, 6 (1980)
J Danielsson *et al.*, 'An Academic Response to Basle I' available at www.riskresearch.org
D Diamond (1984) 'Financial Intermediation and Delegated Monitoring', *Review of Economic Studies*, 51, 393-414
D Diamond (1991), 'Monitoring and Reputation: The choice between bank loans and directly placed debt', *Journal of Political Economy*, 99, 4, 689-721
D Diamond and P Dybvig (1983) 'Bank runs, deposit insurance and liquidity', *Jnl of Political Economy*, 91, 401-419.
G Fontana and A Palacio-Vera, 'Monetary Policy Rules: what are we learning?' *Jnl of Post-Keynesian*

Economics, 24 (4) 2002, 547-68

C A E Goodhart, 'The Conduct of Monetary Policy', *Economic Jnl*, 99 (396) 293-346

C A E Goodhart, 'What should central banks do? What should be their macroeconomic objectives and operations?', *Economic Jnl*, Nov. 1994, 1424-36

S Heffernan, 'Modeling British Interest Rate adjustment: an error correction approach', *Economica*, 1997, 64, 261-7

M King, 'The transmission mechanism of monetary policy', *Bank of England Quarterly Bulletin*, Aug. 1994, 261-7.