



Finance & Banking

# Commercial Banking

Winter Semester

Institute:	Institute for Finance & Banking
Lecturer:	Prof. Dr. Ralf Elsas
Assistant:	tba
Weekly hours:	Block lecture and exercise sessions
Credits	6 ECTS
Examination:	Written exam (two hours)
Prerequisites:	Knowledge of finance, banking and statistics
Course Material:	The course material is available and can be downloaded in Moodle

## Course Description & Main Objectives

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The course „Commercial Banking“ provides students with an overview about the German and international banking sector, the corresponding institutional design as well as fundamental theoretical approaches and related empirical evidence. Core questions are: What is special about banks? Why and how should banks be regulated? How can banks measure and manage (credit) risk?

Main Objectives:

- Providing students with a fundamental understanding of commercial banks and how they operate
- Offering comprehensive understanding of capital market activities
- Providing case-oriented “hands-on” training on the principles of banking
- Emphasising on extensive classroom discussions



# Lectures Overview / Course Outline

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Module one tries to motivate why understanding the eminent role of banks in financial systems is interesting and economically relevant. It also provides a brief overview on the German financial system and the role of banks in corporate finance. Module two introduces game theory and discusses the fundamental theoretical ideas constituting our current understanding of why financial intermediaries exist. Chapter three provides an in-depth analysis of ratings as the core ingredient for banks credit risk management. Differences between external and internal rating are discussed. Migration probabilities and default rates of external rating are shown. Statistical approaches like discriminant analysis, and logit models for measuring default risk are introduced and compared to the option-theoretic based Merton-model approach. An overview on the reason and measures for banking regulation is provided in module four. The German banking act "Kreditwesengesetz" (KWG) and the role of the supervisory authority BaFin is discussed, complemented by a brief outline of current banking regulation in Germany. This includes a discussion of deposit insurance versus institution guarantees and the fundamental types of risk a bank faces in its operations. Moreover, it provides a discussion on the Basel regulation frameworks. Module five discusses the recent phenomenon of securitization in banking that questions our understanding of why banks' are special.

## Literature

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- Crouhy/Galai/Mark (2004): Risk Management, McGraw-Hill
- De Servigny/Renault (2000): Measuring and Managing Credit Risk, McGraw Hill
- Freixas/Rochet(1997): Microeconomics of Banking. MIT Press
- Greenbaum/Thakor (1995): Contemporary Financial Intermediation, Dryden, Fort Worth