

# International Banking Reform

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## **Aims and objectives of the course**

The role of banks has greatly changed in the modern market economies. It is time to review older understandings of the role of banks and connected regulatory solutions. This is all the more important as the old regulatory solutions were not able to prevent the financial crisis. The new regulations are, however, very controversial. Although they primarily aim at increasing stability of banking and finance, they are also increasing the power of regulators and supervisors over banks. In this course, we are going to review the history of bank regulation from WWII onwards, look at why banks are regulated differently in different countries from autocratic governments in China to Islamic banking, although the emphasis will be on European and North American regulatory solutions. We are going to look at a lot on the 2008 financial crisis, so if you want to know more about it, take this course. If you want to know more about the role of international financial organizations in spreading bank regulation, take this course. And finally, if you are interested in bank bail outs, currency crisis and the connections between politics and finance, take this course.

## **Class conduct**

There is no textbook, instead, you will find on the MOODLE site of the course all the selected readings uploaded for each week. Every week we will meet twice. I selected an article for each occasion. You must read the selected article before each class. We start with a short quiz to check whether you read the article or not. Then we will discuss the article.

## **Assessment**

Quiz each week (10%)

Topic statement (10%)

Research proposal (10%)

Research paper (20%)

Final exam (50%)

**Requirements:** One research paper, based on a topic statement and research proposal approved by the instructor.

## **Topic statement**

Your research topic should be about some aspect of international banking regulation, and it should have sufficient recent empirical content to allow you to discuss developments over the past two years. The topic statement is a brief summary of the topic you intend to research. Its purpose is to make sure you have a topic that is doable and that fits with course themes. You should choose a topic in international banking regulation that has current relevance. The following should be included in your topic statement: a tentative title, the topic, and how your paper hopes to contribute to knowledge. – max. 1/2 page.

### **Research proposal**

The research proposal is a more developed plan for your paper. It has two main purposes. First, it aims to make sure you have a research plan that is a good one. Second, it asks you to make use of current technologies for carrying out research on contemporary global finance.

In your proposal you should restate your topic and indicate how you will go beyond the existing academic literature on this topic. You should also set out your working hypothesis or arguments and indicate why these are of interest (for instance that it challenges a prevailing view or that it reveals an important and hitherto unrecognized relationship). You should indicate the key developments that are relevant to your topic that have occurred over the past two years. You should provide evidence that you have scanned the relevant sources of information in order to ascertain the availability of information on your topic. – max 2 pages.

### **Research paper**

Your research paper should build on your proposal. In grading the paper the following criteria will be used: (a) is a thesis or argument clearly stated at the beginning of the paper and is the paper organized around that? (b) does your conceptual discussion draw well on one or more theories? (c) do you go beyond the existing literature conceptually or empirically? (d) are the counter-arguments to your own position acknowledged and addressed at some point in your paper? (e) is your writing clear, engaging, and adequately proofread? (f) have you drawn on the best possible scholarly and non-scholarly sources in your paper? (g) have you brought your research up to date (including the past two years)?. – max 3000 words plus references.

### **Learning outcomes**

On successful completion of this course, students should be able to

- apply theoretical concepts of financial markets, banks and international financial institutions (assessment: presentations)
- compare and contrast banking regulations and governments' banking policies in selected nations (assessment: mid-term exam and final exam)
- use different sources of data and other information about banking and finance (assessment: mid-term exam and final exam)
- structure thoughts and ideas in a clear format and within the required time limit using a variety of professional presentation techniques and tools and can deliver the message professionally to the audience and handle questions and comments (assessment: presentations)

## **1. Introduction**

Frederic S Mishkin. Why Study Money, Banking and Financial Markets? Chapter 1.  
[http://www2.lawrence.edu/fast/finklerm/mishkin\\_ch01.pdf](http://www2.lawrence.edu/fast/finklerm/mishkin_ch01.pdf)

Calomiris, C. and Haber, J. (2014): Fragile by Design, Princeton University Press, Chapter 1.  
<http://press.princeton.edu/chapters/s10177.pdf>

## **2. Historical review of financial reforms**

J.B. Goodman & Louis W. Paul (1993) The obsolescence of capital controls? Economic management in an age of global markets, World Politics, Volume 46, Issue 1  
<https://web.stanford.edu/class/polisci243c/readings/v0002007.pdf>

Richard N. Cooper & Steven Vogel (1996) Freer Markets, More Rules: Regulatory Reform in Advanced Industrial Countries, Foreign affairs (Council on Foreign Relations) review  
<https://www.foreignaffairs.com/reviews/capsule-review/1996-09-01/freer-markets-more-rules-regulatory-reform-advanced-industrial>

## **3. How banks are regulated?**

Mark S Copelovitch and David Singer. Financial Regulation, Monetary Policy, and Inflation in the Industrialized World. The Journal of Politics, 70(03):663-680, 2008.  
[https://www.researchgate.net/publication/228119591\\_Financial\\_Regulation\\_Monetary\\_Policy\\_and\\_Inflation\\_in\\_the\\_Industrialized\\_World](https://www.researchgate.net/publication/228119591_Financial_Regulation_Monetary_Policy_and_Inflation_in_the_Industrialized_World)

Frances Rosenbluth and Ross Schaap. The domestic politics of banking regulation. International Organization, 57(02):307-336, April 2003.  
<http://www.people.fas.harvard.edu/~iversen/PDFfiles/RosenbluthandSchaap2002.pdf>

## **4. Regulating capital mobility in authoritarian states**

Thomas B Pepinsky. Capital mobility and coalitional politics: authoritarian regimes and economic adjustment in Southeast Asia. World Politics, 60(03):438-474, 2008.

D A Steinberg and V C Shih. Interest Group Influence in Authoritarian States: The Political Determinants of Chinese Exchange Rate Policy. Comparative Political Studies, 45(11):1405-1434, October 2012.

David A Steinberg and Krishan Malhotra. The Effect of Authoritarian Regime Type on Exchange Rate Policy. World Politics, 66(03):491-529, July 2014.

## **5. Islamic banking**

Pollard, J and M Samers (2007): Islamic banking and finance: postcolonial political economy and the decentring of economic geography, Transactions, Volume 32, Issue 3, pp. 313–330

Beng Soon Chonga, Ming-Hua Liub (2009): Interest free or interest based, Pacific-Basin Finance Journal, Volume 17, Issue 1, pp. 125–144

## **6. Capital market regulation**

Beth Simmons (2001) The International Politics of Harmonization: The Case of Capital Market, International Organization

[https://dash.harvard.edu/bitstream/handle/1/3382976/international\\_politics.pdf?sequence=2](https://dash.harvard.edu/bitstream/handle/1/3382976/international_politics.pdf?sequence=2)

Ethan B. Kapstein: Capital Rules: The Domestic Politics of International Regulatory Harmonization

## **7. Review and Mid-term**

## **8. Currency crisis and capital liberalization**

David Leblang and Shanker Satyanath. Institutions, expectations, and currency crises. International Organization, 60(1):245, 2006.

Thomas B Pepinsky. Do Currency Crises Cause Capital Account Liberalization? International Studies Quarterly, pages 1-17, April 2012.

## **9. And how banks have changed**

Hardie, I., D. Howarth, S. Maxfield, and A. Verdun. (2013) ‘Banks and the False Dichotomy in the Comparative Political Economy of Finance’, World Politics, 65, 4, 691-728.

[http://www.research.ed.ac.uk/portal/en/publications/banks-and-the-false-dichotomy-in-the-comparative-political-economy-of-finance\(eb4c6b30-cee0-4004-9694-f264a4a5c348\).html](http://www.research.ed.ac.uk/portal/en/publications/banks-and-the-false-dichotomy-in-the-comparative-political-economy-of-finance(eb4c6b30-cee0-4004-9694-f264a4a5c348).html)

Grossman and C Woll. Saving the Banks: The Political Economy of Bailouts. Comparative Political Studies, 47(4):574-600, February 2014.

## **10. Macroprudential regulation**

Baker, A. (2013): „The New Political Economy of the Macroprudential Ideational Shift”, New Political Economy, XVIII/1, 112–139. old.

[http://pure.qub.ac.uk/portal/files/11586616/The\\_New\\_Political\\_Economy\\_of\\_Macroprudential\\_Regulation.pdf](http://pure.qub.ac.uk/portal/files/11586616/The_New_Political_Economy_of_Macroprudential_Regulation.pdf)

Mero, K and D. Piroška (2017): Policy diffusion, policy learning and local politics: Macroprudential policy in Hungary and Slovakia, Europe-Asia Studies, Volume 69, Issue 3.

## **11. US financial regulation – Dodd Frank, too big to fail**

John C. Coffee, Jr (2011): Systemic Risk After Dodd-Frank: Contingent Capital And The Need For Regulatory Strategies Beyond Oversight, Columbia Law Review, Vol. 111, No. 4 (MAY 2011), pp. 795-847

## **12. Banking Union**

Epstein, R. and M. Rhodes (2014): International in Life, National in Death, Banking Nationalism on the Road to Banking Union, working paper, [http://userpage.fu-berlin.de/kfgeu/kfgwp/wpseries/WorkingPaperKFG\\_61.pdf](http://userpage.fu-berlin.de/kfgeu/kfgwp/wpseries/WorkingPaperKFG_61.pdf)

De Ryck (2015): Banking on the Union, the politics of changing eurozone banking supervision, JEPP, Volume 23, Issue 1, <http://www.tandfonline.com/doi/abs/10.1080/13501763.2015.1019551>

## **13. Bank resolution**

Randall Germain (2016): Locating authority: Resolution regimes, SIFIs and the enduring significance of financial great powers, Journal of Banking Regulation Volume 17, Issue 1-2, pp. 34-45

Quaglia, Lucia (2016): The political economy of post-crisis international standards for resolving financial institutions, New Political Economy

## **14. Review session**