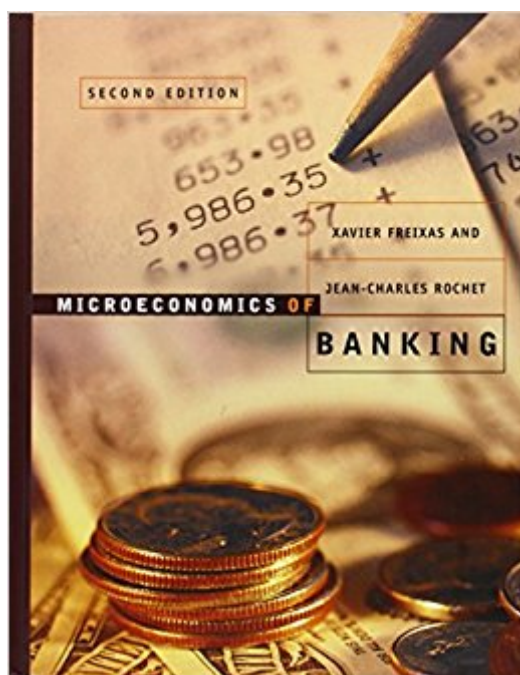


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# Microeconomics Of Banking (MIT Press)



## Synopsis

Over the last thirty years, a new paradigm in banking theory has overturned economists' traditional vision of the banking sector. The asymmetric information model, extremely powerful in many areas of economic theory, has proven useful in banking theory both for explaining the role of banks in the economy and for pointing out structural weaknesses in the banking sector that may justify government intervention. In the past, banking courses in most doctoral programs in economics, business, or finance focused either on management or monetary issues and their macroeconomic consequences; a microeconomic theory of banking did not exist because the Arrow-Debreu general equilibrium model of complete contingent markets (the standard reference at the time) was unable to explain the role of banks in the economy. This text provides students with a guide to the microeconomic theory of banking that has emerged since then, examining the main issues and offering the necessary tools for understanding how they have been modeled. This second edition covers the recent dramatic developments in academic research on the microeconomics of banking, with a focus on four important topics: the theory of two-sided markets and its implications for the payment card industry; "non-price competition" and its effect on the competition-stability tradeoff and the entry of new banks; the transmission of monetary policy and the effect on the functioning of the credit market of capital requirements for banks; and the theoretical foundations of banking regulation, which have been clarified, although recent developments in risk modeling have not yet led to a significant parallel development of economic modeling.

Praise for the first edition: "The book is a major contribution to the literature on the theory of banking and intermediation. It brings together and synthesizes a broad range of material in an accessible way. I recommend it to all serious scholars and students of the subject. The authors are to be congratulated on a superb achievement." -- Franklin Allen, Nippon Life Professor of Finance and Economics, Wharton School, University of Pennsylvania

"This book provides the first comprehensive treatment of the microeconomics of banking. It gives an impressive synthesis of an enormous body of research developed over the last twenty years. It is clearly written and a pleasure to read. What I found particularly useful is the great effort that Xavier Freixas and Jean-Charles Rochet have taken to systematically integrate the theory of financial intermediation into classical microeconomics and finance theory. This book is likely to become essential reading for all graduate students in economics, business, and finance." -- Patrick Bolton, Barbara and David Zalaznick Professor of Business, Columbia University Graduate School of Business

"The authors have provided an extremely thorough and up-to-date survey of microeconomic theories of financial intermediation. This work manages to be both rigorous and pleasant to read. Such a book was long overdue and should be required reading for anybody

interested in the economics of banking and finance." -- Mathias Dewatripont, Professor of Economics, ECARES, Universit

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## Customer Reviews

The Microeconomics of Banking will be a real boon to all lecturers and students studying banking at the graduate level in economics and finance. Carefully presented by two of the very best banking theorists in the world, Freixas and Rochet's text surveys the most advanced theories of banking behavior, and of the rationale for regulation. Each main chapter comes complete with testing problems and their solutions. Highly recommended. (Charles Goodhart, London School of Economics) This is an excellent introduction to the theory of banking. It assumes little prior knowledge but quickly takes the reader to the frontiers of the field. It should be required reading in any Ph.D level course on banking, as also for anybody who has an interest in the theoretical foundations of banking. (Raghuram Rajan, Eric Gleacher Distinguished Service Professor, Graduate School of Business, University of Chicago) At last the profession has an advanced book on the theory of banking. Freixas and Rochet make a real contribution to the profession by integrating a disparate but growing literature on intermediation. They show the role that these institutions play in the economy and the complex nature of optimal decision making in an imperfect capital market. The book should be required reading for serious students in the area. (Anthony M. Santomero, Richard K. Mellon Professor of Finance, Wharton School, University of Pennsylvania) The events of the

summer and fall of 2007 underline the importance of the role played by banks in the economy. The *Microeconomics of Banking* provides an outstanding exposition of the theory of banking. The second edition is even better than the first. Freixas and Rochet are exceptional scholars who have contributed significantly to the field. They have managed to explain banking in a comprehensive and comprehensible way. This book is essential reading for anybody who wishes to understand banking. (Franklin Allen, Wharton School of Business, University of Pennsylvania)

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in my opinion this is not a very good textbook. it certainly has good literature reviews, but when it comes to the deduction of complex models, the book really doesn't give much details and explanation. and the after-chapter problems sometimes disconnect with the materials covered in the chapters

I found this book very useful to introduce my postgraduate students to the core microeconomic theories of financial intermediation. Several chapters have been updated in the second edition to include the latest developments in the literature. Many papers, theoretical and empirical, are also commented, and a large set of references are provided. Nevertheless, some derivations aren't crystal clear, and some minor mistakes still remain. In any case, this is the best textbook on microeconomics of banking in the market.

Really interesting to understand these complex systems, i really think that is "the" book recommended.

This is a pretty bad economics book. It covers an interesting range of topics, however the models are poorly explained and with no intuition what so ever. Each chapter ends with some problems, but again the suggested solutions are not made thoroughly enough. If you want to learn something about the economics of banking, you will probably be better off simply reading the academic papers the book refers too.

this book gives a good overview over the literature. sadly, the models introduced in the text and in the exercises are often set up poorly (some variables and parameters are never defined, timing assumptions are not discussed, etc).

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