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Bachelor's Thesis Topics Wirtschaftspädagogik **FSS 2021**

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Topic 1: Excessive Risk-Taking by Banks

Excessive risk-taking by banks is seen as a major cause for financial crises and recessions like the recent global financial crisis (Jordà, Schularick, and Taylor 2013). Existing explanations for taking such high risks range from the institutional setting, such as government guarantees (Farhi and Tirole 2012), through firms' incentive structures, such as managerial compensation schemes (Bolton, Mehran, and Shapiro 2015), to behavioural biases, such as the neglect of tail risk (Gennaioli, Shleifer, and Vishny 2012).

The goal of this thesis is to give an overview of the existing theoretical and empirical literature on the causes of excessive risk-taking of financial firms. The thesis should find answers to the following questions (focus on question in bold): What is risk-taking and how can it be measured? When can risk-taking be considered excessive? **What are the causes of excessive risk-taking by banks?**

Introductory Literature

- Bolton, Patrick, Hamid Mehran, and Joel Shapiro, 2015, Executive Compensation and Risk Taking, *Review of Finance* 19, 2139–2181.
- Boyd, John H., and Gianni Nicoló, 2005, The Theory of Bank Risk Taking and Competition Revisited, *The Journal of Finance* 60, 1329–1343.
- Farhi, Emmanuel, and Jean Tirole, 2012, Collective Moral Hazard, Maturity Mismatch, and Systemic Bailouts, *American Economic Review* 102, 60–93.

Topic 2: Banks' Dividend and Payout Policies

While industrial firms have largely cut dividends and stopped share buybacks in crisis years, this is not the case for banks. Aggregate dividends paid by U.S. banks in 2008, for instance, exceeded their aggregate earning by about 30% (Floyd and Skinner 2015). Given the public support banks have received during the financial crises, this observation has fuelled a public debate. In the recent Corona-related depression, consequently, central banks' support packages came along with a ban on bank dividends.

The finance literature refers to moral hazard and signalling strategies to explain payout policies. The goal of this thesis is to review this literature and find answers to the following questions: What empirical patterns did banks' payout policies show during the last years? What are the reasons for the distinct payout policies of banks?

Introductory Literature

- Acharya, Viral V., Irvind Gujral, Nirupama Kulkarni, and Hyung Song Shin, 2011, Dividends and Bank Capital in the Financial Crisis of 2007-2009, *NBER Working Paper* 16896.
- Floyd, Eric, Nan Li, and Douglas J. Skinner, 2015, Payout Policy Through the Financial Crisis: The Growth of Repurchases and the Resilience of Dividends, *Journal of Financial Economics* 118, 299-316.
- Juelsrud, Ragnar, and Planem T. Nenov, 2020, Dividend Payouts and Rollover Crises, *The Review of Financial Studies* 33, 4139-4185.

Topic 3: The Role of Global Banks in Terrorist Financing

Terrorists need money to purchase weapons, pay for training camps, bribe government officials, acquire false identification documents, and print and distribute propaganda material. In 2001, the year of 9/11, al Qaeda operated on an annual budget between USD30 and USD50 million, according to the FBI. Terrorist groups rely on global banks to store their money, make cross-border transfers, and clear currencies.

The goal of this thesis is to review the academic literature on terrorist financing with a focus on the role of global banks. It should address the following questions: What is terrorist financing? Which services of international banks do terrorists need? What role do global (correspondent) banks currently play in financing terrorism? Which role could they take to combat international terrorism?

Introductory Literature

- Berman, Nicolas, Mathieu Couttenier, Dominic Rohner, and Mathias Thoenig, 2017, This Mine is Mine! How Minerals Fuel Conflict in Africa, *American Economic Review* 107, 1564-1610.
- Foley, Jean, Jonathan R. Karlsen, and Tālis J. Putniņš, 2019, Sex, Drugs, and Bitcoin: How Much Illegal Activity Is Financed through Cryptocurrencies? *The Review of Financial Studies* 32, 1798-1853.
- Limodio, Nicola, 2019, Terrorism Financing, Recruitment and Attacks: Evidence from a Natural Experiment, *Chicago Booth Research Paper* 32.