UNIVERSITY OF MANNHEIM
Business School

CHAIR OF
CORPORATE FINANCE

Bachelor’s Thesis Topics Wirtschaftspädagogik FSS 2022

AACSB ACCREDITED EFMD EQUIS ACCREDITED ASSOCIATION OF MBAS AMBA ACCREDITED

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(6): 2139–81.
- **Farhi, Emmanuel, and Jean Tirole.** 2012. "Collective Moral Hazard, Maturity Mismatch, and Systemic Bailouts." *American Economic Review*, 102(1): 60–93.
- **Gennaioli, Nicola, Andrei Shleifer, and Robert Vishny.** 2012. "Neglected risks, financial innovation, and financial fragility." *Journal of Financial Economics*, 104(3): 452–68.
- **Jordà, Òscar, Moritz Schularick, and Alan M. Taylor.** 2013. "When Credit Bites Back." *Journal of Money, Credit and Banking*, 45(2): 3–28

Topic 2: Minimum Capital Ratios in Banking Regulation

Risk in banking can impose significant costs on the economy. Minimum requirements for equity capital ratios of banks, such as the requirements implemented in Basel III and Basel IV, are one instrument to reduce this risk and increase the resilience of the financial system (Admati and Hellwig 2014). However, minimum capital ratios can also have adverse effects, e.g., by aggravating downward liquidity spirals (Brunnermeier and Pedersen 2009).

This thesis should review the existing theoretical and empirical literature on the impact of minimum equity capital ratios on financial and economic stability. It should find answers to the following questions: How can minimum capital ratios stabilize and destabilize the financial system? Which side effects can these regulatory requirements have? Which policy recommendations does the existing literature give?

Introductory Literature

- **Admati, Anat, and Martin Hellwig.** 2014. *The Bankers' New Clothes. What's Wrong with Banking and What to Do about It*. Princeton: Princeton University Press.
- **Brunnermeier, Markus K., and Lasse H. Pedersen.** 2009. "Market Liquidity and Funding Liquidity." *Review of Financial Studies*, 22(6): 2201–38., also see: https://www.youtube.com/watch?v=OjBVdIAlaOY