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4.1.3 Transforming Assets. The second edition of an important text on the microeconomic basis of banking surveys the latest research in banking theory, with new material that 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 management from the comments of many people, especially Judit Montoriol, Henri Page’s, and Henriette Prast. Note 1. This disappointing property of the Arrow-Debreu model is explained in chapter 1. References Bolton, P., and M. Dewatripont. 2005. Contract theory. Microeconomics of Banking 1 Introduction 1.1 What Is a Bank, and What Do Banks Do? Banking operations may be varied and complex, but a simple operational definition of a bank is available: a bank is an institution whose current operations consist in granting loans and receiving deposits from the public. Microeconomics of Banking. Course description. Author and lecturer: Maria Semenova, Senior Research Fellow at the Center for Institutional Studies, Associate Professor at the Department of Finance, National Research University Higher School of Economics, Moscow (msemenova@hse.ru). Target audience: 1st year Master students Working language: English. Prerequisites. The course provides an overview of basic microeconomic models describing different banking markets. It implies discussing the market structures, most of the types of bank-client relationships in the deposit, loan, and interbank markets as well as and banking regulation, crises and systemic risk.