

Topic 2. Financial Intermediation

Why intermediation?

- Transaction costs
- Economies of scale and scope
- Expertise
- Diversification
- Risk sharing
- Asset transformation (liquidity and maturity)
- Asymmetric information
 - Adverse selection
 - Moral hazard

Problems of intermediation

- Expensive
- Liquidity and solvency risks
- Panics and bank runs (=> deposit insurance)
- Moral hazard (=> regulation, capital adequacy, partial deposit insurance)

Intermediaries are useful for small investors and small and risky borrowers who have no reputation

Recent trend - growth of financial markets – disintermediation (thanks to rating agencies).

Types of financial intermediaries

- **Commercial banks** (deposits, loans and mortgages, money transfers, ATM, currency exchange, consulting, hedging counterpart, investment intermediary)
- **Savings and loan associations** (deposits and mortgages)
- **Investment banks** (underwriting, consulting and help with attraction of capital, brokerage, M&A)
- **Mutual funds** (issue of shares (пай), investment in a portfolio of assets)
- **Money market mutual funds** (investments into ST liquid assets)
- **Hedge funds** (investments in derivatives - more risky, less regulated)
- **Private equity funds** (investments in start-ups)
- **Pension funds** (investments in LT safe assets, highly regulated)
- **Insurance companies** (sell insurance contracts, use the law of large numbers)

Фонды

Фонды инвестиционные,
Хедж и пенсионные.

Они нам помогают
Капиталы сохранить
И в нужные активы
Средства разместить,
Доходность заработать,
На старость накопить
Или в солидной фирме
Долю прикупить.

Они снижают риски,
В теории, по книжке,
Ну а на самом деле
Они намного злей
И ради больших денег
Пойдут на все, поверь!
Активы все хеджируют
И секьюритизируют,
И в результате этого
Рождают пузыри,
Ну а когда те лопнут,
Убытки так и жди!

(В. Добрынская)