

# Topics in Banking and Political Economy

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## 1 Outline

This course covers the applied side of banking, with a particular focus on its political economy—a relatively new and growing field. The political-economy approach to banking examines how political institutions and the distribution of political power shape the development and functioning of the banking sector, and vice versa. Recent research has advanced in many directions and has, for instance, deepened our understanding of banking sector development, bank behavior, the emergence of financial crises, and the links between finance and liberal democracy. The course develops these themes through five modules: (i) countries’ financial structure, (ii) bank lending, (iii) financial crises, (iv) central bank independence, and (v) the rise of populism.

In addition to discussing key papers in the field, the course places major emphasis on research design and empirical methodology. The goal is to develop a sense of “how to do good empirical research.”

## 2 Readings

The articles we will cover are listed in Section 4. For each module, we will study about two articles—those highlighted with a (\*)—in depth, and we will provide an overview of several others. Please read the articles marked with a (\*) carefully.

Surveys of the literature on the political economy of (bank) finance include:

- Lambert, T., & Volpin, P. (2018). Endogenous Political Institutions and Financial Development. In *Handbook of Finance and Development* (pp. 477-500). Edward Elgar Publishing.
- Kempf, E., & Tsoutsoura, M. (2024). Political polarization and finance. *Annual Review of Financial Economics*, 16, 413-434.
- Akey, P., Gupta, N., & Lewellen, S. (2026). Politics and finance. *Annual Review of Financial Economics*. Forthcoming.

### 3 Assignment and evaluation

You will also be responsible for turning in 3-page write-ups of one article. I would like you to choose one recent working paper at the intersection of political economy and banking. The write-up should not just summarize the article. It should identify what the major contribution is, identify the econometric methodology used, discuss in depth any potential limitations (modeling limitations, unrealistic assumptions, methodological problems) of the paper, and also discuss how one could extend the paper by identifying unanswered questions.

The course grade will be based on the write-up (“referee report”) and participation in class.

### 4 Reading list

#### Module 0. Political economy *in* finance

Acemoglu, D., Johnson, S., & Robinson, J. A. (2005). Institutions as a Fundamental Cause of Long-Run Growth. In *Handbook of Economic Growth* (pp. 385-472). Elsevier.

Zingales, L. (2017). Towards a political theory of the firm. *Journal of Economic Perspectives*, 31(3), 113-130.

(\*) Lambert, T., & Volpin, P. (2018). Endogenous Political Institutions and Financial Development. In *Handbook of Finance and Development* (pp. 477-

500). Edward Elgar Publishing.

## **Module 1. Political institutions and financial structure**

Kroszner, R. S., & Strahan, P. E. (1999). What drives deregulation? Economics and politics of the relaxation of bank branching restrictions. *Quarterly Journal of Economics*, 114(4), 1437-1467.

(\*) Rajan, R. G., & Zingales, L. (2003). The great reversals: The politics of financial development in the twentieth century. *Journal of Financial Economics*, 69(1), 5-50.

Acemoglu, D., & Johnson, S. (2005). Unbundling institutions. *Journal of Political Economy*, 113(5), 949-995.

(\*) Perotti, E. C., & Von Thadden, E. L. (2006). The political economy of corporate control and labor rents. *Journal of Political Economy*, 114(1), 145-175.

Benmelech, E., & Moskowitz, T. J. (2010). The political economy of financial regulation: Evidence from US state usury laws in the 19th century. *Journal of Finance*, 65(3), 1029-1073.

Degryse, H., Lambert, T., & Schwienbacher, A. (2018). The political economy of financial systems: Evidence from suffrage reforms in the last two centuries. *Economic Journal*, 128(611), 1433-1475.

Miller, M. (2026). Who values democracy? *Journal of Political Economy*. Forthcoming.

## **Module 2. Politics and credit**

Sapienza, P. (2004). The effects of government ownership on bank lending. *Journal of Financial Economics*, 72(2), 357-384.

Khwaja, A. I., & Mian, A. (2005). Do lenders favor politically connected firms? Rent provision in an emerging financial market. *Quarterly Journal of Economics*, 120(4), 1371-1411.

(\*) Akey, P., Heimer, R. Z., & Lewellen, S. (2021). Politicizing consumer credit. *Journal of Financial Economics*, 139(2), 627-655.

Dagostino, R., Gao, J., & Ma, P. (2023). Partisanship in loan pricing. *Journal of Financial Economics*, 150(3), 1037-17.

(\*) Kempf, E., Luo, M., Schäfer, L., & Tsoutsoura, M. (2023). Political ideology and international capital allocation. *Journal of Financial Economics*, 148(2), 150-173.

Igan, D., Lambert, T., Mishra, P., & Zhang, E. Q. (2025). The politics of the paycheck protection program. *Review of Corporate Finance Studies*, 14(4), 1083-1122.

### **Module 3. Political economy of financial crises**

Mian, A., Sufi, A., & Trebbi, F. (2010). The political economy of the US mortgage default crisis. *American Economic Review*, 100(5), 1967-1998.

Duchin, R., & Sosyura, D. (2012). The politics of government investment. *Journal of Financial Economics*, 106(1), 24-48.

Igan, D., Mishra, P., & Tressel, T. (2012). A fistful of dollars: Lobbying and the financial crisis. *NBER Macroeconomics Annual*, 26(1), 195-230.

(\*) Agarwal, S., Lucca, D., Seru, A., & Trebbi, F. (2014). Inconsistent regulators: Evidence from banking. *Quarterly Journal of Economics*, 129(2), 889-938.

(\*) Igan, D., & Mishra, P. (2014). Wall Street, Capitol Hill, and K Street: Political influence and financial regulation. *Journal of Law and Economics*, 57(4), 1063-1084.

Liu, W. M., & Ngo, P. T. (2014). Elections, political competition and bank failure. *Journal of Financial Economics*, 112(2), 251-268.

Agarwal, S., Amromin, G., Ben-David, I., & Dinc, S. (2018). The politics of foreclosures. *Journal of Finance*, 73(6), 2677-2717.

Lambert, T. (2019). Lobbying on regulatory enforcement actions: Evidence from US commercial and savings banks. *Management Science*, 65(6), 2545-2572.

Igan, D., Lambert, T., Wagner, W., & Zhang, E. Q. (2022). Winning connections? Special interests and the sale of failed banks. *Journal of Banking & Finance*, 140, 106496.

(\*) Dessein, W., Gong, D., Lambert, T., & Wagner, W. (2026). Subordinates in charge: Does delegation improve banking supervision? Working Paper.

#### **Module 4. Politics of central bank independence**

Mishra, P., & Reshef, A. (2019). How do central bank governors matter? Regulation and the financial sector. *Journal of Money, Credit and Banking*, 51(2-3), 369-402.

(\*) Fabo, B., Jančoková, M., Kempf, E., & Pástor, Ľ. (2021). Fifty shades of QE: Comparing findings of central bankers and academics. *Journal of Monetary Economics*, 120, 1-20.

Romelli, D. (2022). The political economy of reforms in central bank design: Evidence from a new dataset. *Economic Policy*, 37(112), 641-688.

Goncharov, I., Ioannidou, V., & Schmalz, M. C. (2023). (Why) do central banks care about their profits? *Journal of Finance*, 78(5), 2991-3045.

Drechsel, T. (2026). Political pressure on the Fed. *Review of Economic Studies*. Forthcoming.

(\*) Ioannidou, V., Kokas, S., Lambert, T., & Michaelides, A. (2026). (In) dependent central banks. Working Paper.

## **Module 5. The (financial) origins of populism**

Mian, A., Sufi, A., & Trebbi, F. (2014). Resolving debt overhang: Political constraints in the aftermath of financial crises. *American Economic Journal: Macroeconomics*, 6(2), 1-28.

Funke, M., Schularick, M., & Trebesch, C. (2016). Going to extremes: Politics after financial crises, 1870–2014. *European Economic Review*, 88, 227-260.

Braggion, F., Manconi, A., & Zhu, H. (2020). Credit and social unrest: Evidence from 1930s China. *Journal of Financial Economics*, 138(2), 295-315.

(\*) Doerr, S., Gissler, S., Peydró, J. L., & Voth, H. J. (2022). Financial crises and political radicalization: How failing banks paved Hitler’s path to power. *Journal of Finance*, 77(6), 3339-3372.

Guriev, S., & Papaioannou, E. (2022). The political economy of populism. *Journal of Economic Literature*, 60(3), 753-832.

(\*) Gyöngyösi, G., & Verner, E. (2022). Financial crisis, creditor-debtor conflict, and populism. *Journal of Finance*, 77(4), 2471-2523.

Funke, M., Schularick, M., & Trebesch, C. (2023). Populist leaders and the economy. *American Economic Review*, 113(12), 3249-3288.