Overview of investment banking

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Learning objectives:
- Key elements of investment banking
- Principles of investment banking
- Their significant role in the financial crisis
- Shadow banking and the repo market

Investment banks and the role of reputation
- Investment banks deal with moral hazard and asymmetric information just like commercial banks
- They are just an intermediary between issuer of security and the investors - they simply underwrite the securities and do not take the money
- It’s the reputation of the bank that makes it possible for them to issue securities

The role of the reputation in the market?
- The underwriting process is extremely important as it allows users of securities to take advantage of the reputation of underwriters. They act as intermediaries who match the issuer of securities to buyers of the securities
- Investment bankers, compared to traders in the market, cultivate an image of sober responsibility and good citizenship as they thrive on reputation

BIGNews:
- Investment banks have been under the media spotlight in recent years because many of them are bucking in the financial crisis
  ○ Bear Stearns
  ○ Goldman Sachs
  ○ Lehman Brothers
  ○ UBS
  ○ Merrill Lynch
- Bear Stearns was the first US investment bank to face troubles in the financial crisis
  ○ In 2007