Overview of investment banking

Monday, 31 October 2016 2:03 pm

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 at 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
    - Merril lynch
- Bear Stearns was the first US investment bank to face troubles in the financial crisis
    - In 2007