Shelagh Heffernan was an outstanding all round economist who specialised in analysis of banks and banking markets. Shelagh made important contributions to banking research but she will be remembered best by colleagues and former students as an inspirational and innovative teacher and mentor. She died in December 2010 in London after a long and courageous fight against illness.

Born in Edmonton, Alberta in 1955, Shelagh went to secondary school in Ontario and then studied for a BA in economics at the University of Toronto, graduating in 1978. Oxford was her chosen graduate school and she was awarded an MPhil in Economics in 1980 and a DPhil in 1981. It was while at Oxford that she met her future husband, fellow economist, Peter Sinclair.

Shelagh’s first full-time teaching post was at the University of British Columbia, but she only stayed there a year before taking up a post at what was then the City University Business School (later to be renamed the Cass Business School) in 1982. This remained her academic base for the rest of her career. She rose through the ranks of lecturer, senior lecturer, and reader to become a full professor in 1995.

Sovereign debt crises were the topic of Shelagh’s first published work and this was very topical in the aftermath of the Latin American debt crisis of the early 1980s. A book on this subject followed in 1986 (Sovereign Risk Analysis, Unwin Hyman). Much of this work was about identifying the factors that would help predict debt defaults and it anticipated much later work that was used by ratings agencies and lenders. It was work on this topic that stimulated her interest in the behaviour of banks as it was obvious to her that there was some degree of herding behaviour and consistent underestimation by banks of the riskiness of much of their lending. Several papers on the prediction of bank failures followed in the 1990s.

The work on sovereign debt crises also stimulated thought on international monetary arrangements which lead to a paper on the prospects for a world central bank. It also helped Shelagh prepare for writing the international monetary half of a text book on international economics, co-authored with Peter Sinclair (Modern International Economics, Blackwells, 1990).

In the 1990s, Shelagh started to focus on the work which will probably be that for which she is best remembered. There were two related strands, one with monetary policy implications and the other with implications for understanding pricing behaviour and competition in banking markets. In both areas, she made several path-breaking contributions which have stood the test of time and generated subsequent research by others. In the area of banking and the financial system, two over-arching themes emerged. Firstly, banks are economic firms with their own objectives and strategies, and should not be regarded as part of a passive social infrastructure: their own behaviour matters. Secondly, the operations of financial firms and markets, which are often overlooked in economic modelling, are important in the economy, both in the monetary policy transmission mechanism and in crisis episodes.

The work with monetary policy implications focused on the pass-through of interest rate decisions by the monetary authorities. Text book models at the time (and still to some extent) had a very simple transmission mechanism where official interest rate changes affected investment in a closed economy and the exchange rate in an open economy, and this then shifted the aggregate demand curve. There may be time lags in the impact of the policy change but these time lags depended on the delayed spending decisions of agents. Shelagh realised that there was a transmission process within the financial system first, as official rate changes did not lead to all other posted rates changing immediately, but there was no extant evidence on how all that worked. Her paper (‘Modelling British Interest Rate Adjustment: An Error Correction Approach’, Economica, 1997) made significant progress in filling this gap. However, Shelagh realised that a significant obstacle lay in the lack of data that were available. Aggregate data which were averaged across a range of financial institutions concealed much of the story, so she set about constructing a product-by-product and bank-by-bank data set that could help illuminate this issue and her other concern, bank pricing behaviour in general.

The interest rate pass-through work culminated in her paper ‘Interest Rate Transmission in the UK: A Comparative Analysis across Financial Firms and Products’ (International Journal of Finance & Economics, 2009, joint with Ana-Maria Fuertes). This helped shine light on the fact that monetary policy had an impact on output and inflation with ‘long and variable lags’. Some of those lags and that variability were within the financial system itself, even before the impact was felt by non-bank agents.

Perhaps an even greater contribution came in the work that Shelagh did with her detailed data base to analyse the pricing strategies of banks in general. She wrote several papers that focus on the competition between banks within specific product markets. Among these were: ‘UK Bank Services for Small Business: How Competitive is the Market?’ (Journal of Banking and Finance, 2006), ‘The Effects of UK Building Society Conversion on Pricing Behaviour’ (Journal of Banking and Finance, 2005) and ‘How do UK Financial Institutions Really Price their...’
Banking Products?’ (Journal of Banking and Finance, 2002). A key result in the latter paper was that banks typically price a product competitively when it is first launched so as to attract new customers, but they then let the spreads widen over time so that the customers who were initially attracted get an increasingly worse deal as time passes. The product-level data revealed what the aggregate data could not.

Shelagh’s research interest in banks led her to volunteer to teach banking and her search for course materials made her realise that a new text was needed. Modern Banking in Theory and Practice (Wiley, 1996) filled the gap more than adequately and became a standard course text in the field. Modern Banking (Wiley, 2005) was an even more comprehensive and updated text. These two books finally cemented her reputation as one of the leading academic commentators on banking in the UK and internationally.

Shelagh’s last few research papers were on the emerging Chinese banking sector and these were written with her last PhD student, Maggie Fu. She would, no doubt, have had a lot more to say about the recent banking crisis and the regulatory issues being faced now if she had not been seriously debilitated by her worsening health.

Research was important to Shelagh but teaching was her passion. She taught economics to business studies undergraduates and also to MBA students. The latter proved a serious challenge as she faced a large class many of whom could not see why this was part of their course. They were also beginning to think of themselves as customers rather than students as they were paying significant fees for the first time in their lives. Shelagh soon whipped them into shape. She locked the lecture room door at five minutes past nine to stop late arrivals, and she may be the first lecturer anywhere to eject a student when a mobile phone went off in her class. It was hard to find a time for a class test so Shelagh ran it on a Saturday morning. Such was her charisma that attendance was 100 per cent. The quid pro quo from Shelagh was that every student in a class of over 200 had their work returned and marked, with full comments, by 9.00am on Monday morning.

Her growing interest in banking led Shelagh to get involved in the Cass undergraduate degree in Banking and International Finance. She became course director of this for several years and a teacher of the core banking modules for many more. Her deteriorating health made it impossible for her to stand up and lecture for any length of time, but this did not stop her winning teaching prizes at the School and University level. She thought of innovative ways to teach, she set group work and case studies and gave detailed feedback on all work received. Indeed she set such high teaching standards that many of her fitter colleagues found it hard to compete. In 2008, she was appointed to the post of Associate Dean for Teaching and Learning at Cass and in that capacity worked tirelessly to raise the teaching standards of all.

Shelagh Heffernan achieved a huge amount in her tragically truncated career. She could have done a great deal more if she had not suffered from deteriorating health for at least the last 15 years of her life. She was an inspiration to both students and colleagues alike because of her commitment to her work, the administrative and supervisory responsibilities she willingly took on, and the care she took with students---all in the face of debilitating illness. For her colleagues and students however, it is not her frailty that will be remembered, rather it is her incredible will power and dedication. She never made excuses and no student ever complained that they were short changed. More teachers like her would have suited them just fine. Unfortunately there was no one else quite like Shelagh.

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