Summer Examinations 2015

ACC202215N

Module Title: Financial Intermediation
Level: Five
Time Allowed: Two hours, plus fifteen minutes reading time. Students must not commence answering the questions until the reading time has ended.

Instructions to students:
- Enter your student number not your name on all answer books.
- During the fifteen minutes reading time, students are not permitted to make notes on the examination paper or answer booklet. Students should begin answering the questions after the reading time has ended.
- Answer four out of nine questions.
- All questions carry equal marks. Where a question has more than one part the division of marks is stated.
- Neither books nor notes may be taken into the examination.
- The use of a silent non-programmable calculator is permitted.

<table>
<thead>
<tr>
<th>No. of Pages</th>
<th>4</th>
</tr>
</thead>
<tbody>
<tr>
<td>No. of Questions</td>
<td>9</td>
</tr>
</tbody>
</table>
Answer four out of nine questions:

Question 1

a. With reference to theories of financial intermediation, discuss why financial intermediaries exist. (7 marks)

b. Discuss the key functions of financial intermediaries in an economy. (8 marks)

c. ‘There is even evidence that the level of financial development is a good predictor of future rates of economic growth, capital accumulation, and technological change’ (Levine 1997).

Critically evaluate the role of banks and other financial intermediaries in economic growth. (10 marks)

(Total: 25 marks)

Question 2

a. Compare the different activities of commercial and investment Banks, highlighting their different roles. (8 marks)

b. What are the main sources of funding for each type of bank? (5 marks)

c. Explain why the separation of retail and investment banking activities is considered important. (12 marks)

(Total: 25 marks)

Question 3

a. Outline and discuss the objectives of bank and financial markets regulation. (15 marks)

b. Critically evaluate the possible negative impacts of bank regulation to the financial system. (10 marks)

(Total: 25 marks)
Question 4

a. Explain and discuss the three main methods that Governments and fiscal authorities use to control the money supply of a country. (15 marks)

b. Explain how these methods can provide inflationary or deflationary stimulus to the economy. (10 marks)

(Total: 25 marks)

Question 5

a. Explain the key functions and importance of bank capital? (8 marks)

b. How was Basle II an improvement of the Basle Capital Accord (Basle I)? (7 marks)

c. Critically evaluate the expected impact of the CRDIV and Basle III on banks. (10 marks)

(Total: 25 marks)

Question 6

a. Discuss the perceived benefits of derivatives to banks. (10 marks)

b. Give an example of where the misuse of derivative products has led to the collapse of a financial institution and explain how the failure occurred. (15 marks)

(Total: 25 marks)

Question 7

a. Outline and discuss the functions and importance of central banks. (15 marks)

b. Discuss why central bank independence from political influence is an important aspect in national economic management. (10 marks)

(Total: 25 marks)
Question 8

a. Discuss the main causes of the 2007-8 financial crises. (10 marks)

b. Critically evaluate the changes in regulations that have been implemented and proposed since the crises. (15 marks)

(Total: 25 marks)

Question 9

a. Explain the process of securitisation and the benefits of securitisation to the issuer. (10 marks)

b. What are the credit enhancement techniques that banks employ to improve the credit rating of a Special Purpose Vehicle (SPV)? (15 marks)

(Total: 25 marks)

End of Paper