Summer Examinations 2016

ACC202216N

Module Title: Financial Intermediation
(Management of Financial Institutions)
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 permitted to make notes on the examination paper but not on the answer book. Students should begin answering the questions after the reading time has ended.
• Answer any 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 calculator is permitted.

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Answer **four** out of **nine** questions

1.  
   a. Explain how the theories of information sharing coalitions and delegated monitoring resolve the problems of information asymmetry in financing.  
      (10 Marks)
   
   b.  
      i. Define direct and indirect finance.  
         (5 marks)
      
      ii. Evaluate why is indirect financing dominant over direct financing?  
          (10 Marks)
   
   (Total: 25 Marks)

2.  
   a. The Diamond and Dybvig (1983) model explains that the liquidity transformation function of banks makes them vulnerable to bank runs. Discuss this statement.  
      (10 Marks)
   
   b. Critically discuss how banks can create liquidity.  
      (15 Marks)
   
   (Total: 25 Marks)

3.  
   a. Explain four key risks that banks face in the conduct of banking business.  
      (10 Marks)
   
   b. Discuss the risks measurement and management process in banks.  
      (8 Marks)
   
   c. Critically evaluate the downside of risk measurement techniques in use today.  
      (7 Marks)
   
   (Total: 25 Marks)

4.  
   a. Define and explain Asset and Liability Management (ALM).  
      (10 Marks)
   
   b. Critically evaluate the techniques used in ALM.  
      (15 Marks)
   
   (Total: 25 Marks)
5.  
a. Outline and explain the process of securitisation.  
   (10 Marks)

   b. Critically evaluate the advantages and disadvantages of banks’ use of securitisation.  
   (15 Marks)

   (Total: 25 Marks)

6.  
a. Analyse the importance of adjusting for risk in bank regulation and bank performance measurement.  
   (10 Marks)

   (15 Marks)

   (Total: 25 Marks)

7.  
a. Explain the structure of a future, option and swap contract.  
   (10 Marks)

   b.  
   i. Define credit derivatives and explain their uses.  
       (5 marks)

   ii. Using credit derivatives as an example evaluate the benefits of using derivatives in risk management.  
       (10 Marks)

   (Total: 25 Marks)

8.  
a. Outline and discuss the main causes of the 2007 global financial crises.  
   (10 Marks)

   b. Evaluate the capital and liquidity regulatory changes that have been put in place in the UK since 2008 to strengthen UK banks to withstand shocks.  
   (15 Marks)

   (Total: 25 Marks)
9.  
   a. What role does the Bank of England play in the UK economy?  
      (10 Marks)
   
   b. Using examples, discuss why central bank independence is important for the long term economic growth of a country.  
      (15 Marks)
   
   (Total: 25 Marks)

End of Paper