Examination Period 3: 2016/17

Module Title: Principles of Banking
Level: Four
Time Allowed: Two hours plus 15 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 15 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 five out of twelve questions.
- All questions are equally weighted. 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 non-programmable calculator is permitted.
Answer **five** out of **twelve** questions.

1. a. What is a financial intermediary?  
   
   (5 marks)

b. Explain how transaction costs and information asymmetry justify the existence of banks.  

   (15 marks)

(Total: 20 marks)

2. a. What is bank capital?  
   
   (5 marks)

b. Assess the advantages and disadvantages of the risk asset-ratio.  

   (15 marks)

(Total: 20 marks)

3. a. What is interest rate risk?  
   
   (5 marks)

b. Discuss different techniques banks use to manage interest rate risk.  

   (15 marks)

(Total: 20 marks)

4. a. What are the main causes of a bank run?  
   
   (5 marks)

b. How do banks and the central bank protect the banking sector from bank runs?  

   (15 marks)

(Total: 20 marks)

5. a. What is moral hazard and adverse selection?  
   
   (5 marks)

b. How can moral hazard and adverse selection be mitigated by financial intermediaries?  

   (15 marks)

(Total: 20 marks)
6. a. What is bank regulation? (5 marks)
   b. How does deposit insurance contribute to the regulation of banking? (15 marks)
   (Total: 20 marks)

7. a. What is an investment bank? (5 marks)
   b. What are the key features that distinguish a commercial bank (retail) from an investment (merchant) bank? (15 marks)
   (Total: 20 marks)

8. a. What is the Bank of England? (5 marks)
   b. Examine the role that the Bank of England plays in the UK economy. (15 marks)
   (Total: 20 marks)

9. a. What is internationalisation of banks? (5 marks)
   b. Explain the theories that have been put forward to explain the internationalisation of banks. (15 marks)
   (Total: 20 marks)

10. a. What is an asset backed security? (5 marks)
    b. Explain the advantages and disadvantages of securitisation. (15 marks)
    (Total: 20 marks)
11.  
a.  What is Basle III?  

b.  Why is it important that banks and financial markets are regulated?  

(5 marks)  
(15 marks)  
(Total: 20 marks)  

12.  
a.  Define credit risk and operational risk.  

b.  Explain how banks manage the risks outlined in (a).  

(5 marks)  
(15 marks)  
(Total: 20 marks)