Examination Period 3: 2016/17

ACC202217N

Module Title Financial Intermediation
Level Five
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 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 non-programmable calculator is permitted.

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Answer four out of nine questions.

1. a. Define and explain the process of financial intermediation. (10 marks)

   b. Examine the importance of financial intermediaries on lenders and borrowers. (15 marks)

   (Total: 25 marks)

2. a. Define and explain the concept of delegated monitoring. (10 marks)

   b. Critically appraise the benefits and risks associated with liquidity or maturity transformation services offered by banks. (15 marks)

   (Total: 25 marks)

3. a. Describe and explain how credit risk arises in banking. (10 marks)

   b. Evaluate how banks mitigate and manage credit risk. (15 marks)

   (Total: 25 marks)

4. a. Define and explain liquidity risk and interest rate risk. (10 marks)

   b. Discuss the principles of gap analysis and its application in the management of liquidity and interest rate risk. (15 marks)

   (Total: 25 marks)
5.  
   a. Explain the key characteristics of forward and futures contracts. 
   (10 marks)  
   b. Critically discuss the advantages and disadvantages of using derivatives for banks.  
   (15 marks)  
   (Total: 25 marks) 

6.  
   a. Outline and explain the process of securitisation.  
   (10 marks)  
   b. Critically discuss the advantages and disadvantages of securitisation for banks.  
   (15 marks)  
   (Total: 25 marks) 

7.  
   a. Explain the salient features of Basle III.  
   (10 marks)  
   b. Critically evaluate if Basle III is a significant improvement from Basle II.  
   (15 marks)  
   (Total: 25 marks) 

8.  
   a. Outline and explain three main risks (other than liquidity and interest rate risk) faced by banks.  
   (10 marks)  
   b. Continuing from part a, critically review approaches to operational risk management within banks.  
   (15 marks)  
   (Total: 25 marks)
9.

a. Explain the main functions of central banks.  
   (10 marks)

b. Critically discuss the monetary policy tools available to central banks.  
   (15 marks)

(Total: 25 marks)