Examination Period 3: 2018/19

ACC202219N

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<th>Module Title</th>
<th>Financial Intermediation</th>
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<tr>
<td>Level</td>
<td>Five</td>
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<tr>
<td>Time Allowed</td>
<td>Two hours plus fifteen minutes reading time</td>
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Instructions to students:

- Enter your student number **not** your name on all answer books.
- Students are encouraged to use the **first fifteen minutes** of the exam to read the questions carefully and to plan answers.
- Answer **four** out of **eight** questions.
- All questions carry equal marks. Where the question has more than one part, the division of marks is clearly stated.
- The use of a calculator **is** permitted.
- Neither books nor notes may be taken into the examination.

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<td>No. of Questions</td>
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Answer any four out of eight questions.

Question 1

a. Explain how financial intermediaries control information asymmetry by specialising in information gathering and monitoring of the borrowers. (15 marks)

b. Extend the argument that financial institutions play a key role in economic growth of a country. (10 marks)

Total: 25 marks

Question 2

a. Explain the difference between depository and non-depository financial institutions. (10 marks)

b. Discuss the main sources and uses of funds by the commercial banks. Expand this discussion on sources and uses of funds by highlighting the key difference between local and global banks. (15 marks)

Total: 25 marks

Question 3

a. Outline and explain three main risks, namely credit, market and operational risks, faced by the commercial banks. (15 marks)

b. Explain how banks model and manage credit risk. (10 marks)

Total: 25 marks

Question 4

a. Define and discuss financial derivatives. How financial derivatives help in bringing more efficiency and completeness in the financial markets? (15 marks)

b. Critically evaluate the risks arising from using derivatives for bank risk management. (10 marks)

Total: 25 marks
Question 5

a. Describe Basel Accord II (3 Pillars) and highlight the key differences between Basle I and Basle II.  
   (15 marks)

b. Basel II Accord was heavily criticised before, during and after the global financial crisis of 2008/09. What are the main limitations of Basle II?  
   (10 marks)

Total: 25 marks

Question 6

a. After the Global Financial Crisis of 2008/09, regulators all over the world have focused their attention on liquidity creation by the financial institutions. Define and explain liquidity creation in the commercial banks.  
   (10 marks)

b. How do banks measure and manage liquidity and interest rate risks?  
   (15 marks)

Total: 25 marks

Question 7

a. Outline and explain the mechanics of securitisation by taking account of the key steps involved in this process.  
   (15 marks)

b. There are at least two players in securitisation activities, the originator and the investor. Explain the costs and benefits of securitisation to both.  
   (10 marks)

Total: 25 marks

Question 8

a. Central banks play pivotal role in economic management of a country. Outline and discuss key functions performed by a central bank.  
   (15 marks)

b. Independence of central bank from government interference is a widely debated topic in academia and policy circles all over the world. Taking short and long term view of economic policy making, explain why it is important for central banks to perform their key functions independent of political interference.  
   (10 marks)

Total: 25 marks

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End of Paper