

This paper is not to be removed from the Examination Halls

UNIVERSITY OF LONDON

FN2029 ZB

BSc degrees and Diplomas for Graduates in Economics, Management, Finance and the Social Sciences, the Diplomas in Economics and Social Sciences and Access Route

Financial Intermediation

Friday, 8 May 2015 : 14:30 to 17:30

Candidates should answer **FOUR** of the following **EIGHT** questions. All questions carry equal marks.

A calculator may be used when answering questions on this paper and it must comply in all respects with the specification given with your Admission Notice. The make and type of machine must be clearly stated on the front cover of the answer book.

PLEASE TURN OVER

1. Discuss the primary functions of financial intermediaries and critically evaluate the theories of information sharing coalitions and delegated monitoring that resolve the problems of information asymmetry in direct financing.
2. Use the Diamond and Dybvig (1983) model to explain the liquidity insurance theory for the preference for financial intermediation over direct financing. Discuss the implications of the equilibrium outcomes of the model.
3. Discuss the main sources of risks in commercial banking and explain the principles of capital adequacy regulation. Explain how market and operational risks are addressed in the Basel capital adequacy accords.
4. Discuss the motivations and techniques of Asset and Liability Management.
5. Explain the structures of credit derivative products and discuss the motivations for using such products.
6. Explain the mechanics, costs and benefits of different forms of securitisation.
7. Explain the rationale for bank performance measurement and critically analyse the various methods of bank performance measurement.
8. Discuss the main features and payoff structures of call and put options, and discuss the determinants of call and put option prices. Explain how these payoff structures and determinants are useful in option-based credit modelling.

END OF PAPER