

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

Financial Intermediation

Wednesday, 18 May 2016 : 10:00 to 13:00

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 how the existence of financial intermediaries is able to help resolve the problems of imperfect information and asymmetric information.
2. Discuss the importance of the deposit contract for causing banks to be susceptible to runs, and critically evaluate potential solutions to the problematic features of deposit contracts.
3. Discuss the main sources of risk in commercial banking, and critically discuss the Value-at-Risk (VaR) approach to risk measurement.
4. Discuss the methods used by banks to model and manage credit risk.
5. Explain the general risk measurement and risk management functions of banks. Discuss how these functions are applied by banks when they use Asset and Liability Management and gap analysis to manage liquidity risk and interest rate risk.
6. Explain and discuss the purpose and implementation of (i) gap analysis for liquidity risk and interest rate risk, and (ii) credit risk management.
7. Do you think that it is important to adjust for risk in bank regulation and bank performance measurement? Explain and justify your answer.
8. Using credit derivatives as examples, explain the different structures of forwards, options and swaps.

END OF PAPER