This paper is not to be removed from the Examination Halls

UNIVERSITY OF LONDON **FN2029 ZA**

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. Explain how the theories of transactions costs and delegated monitoring lead to the dominance of financial intermediation over 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. Analyse the roles of the gearing ratio and the risk-assets ratio in banking regulation.

4. Explain the constituents of credit risk and discuss how these risks could be managed.

5. Explain the nature of liquidity risk and interest rate risk, and analyse the relevance of gap analysis for managing these risks.

6. Explain the mechanics, costs and benefits of different forms of securitisation.

7. Discuss the main sources of risk in commercial banking, and critically evaluate the approaches used to conduct risk-adjusted performance measurement.

8. Using appropriate examples, explain how banks use forward and swap contracts to manage credit risk, exchange rate risk and interest rate risk.

END OF PAPER