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

Tuesday, 07 May 2013 : 10.00am to 1.00pm

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. Critically evaluate the transactions costs and delegated monitoring theories for the existence of financial intermediaries.

2. With reference to the Diamond and Dybvig (1983) model, explain the theory of liquidity insurance for the existence of banks and discuss its relevance for explaining bank runs.

3. Discuss the arguments for banking regulation and explain the role of the risk-assets ratio in capital adequacy regulation.

4. Compare and contrast the nature and formulation of credit rating systems and credit scoring models as measures of credit risk.

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

6. Explain banks' motivation for engaging in the securitization of balance sheet assets, and analyse the costs and benefits of this process.

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

8. Using examples, explain how banks use derivatives to manage credit risk, exchange rate risk and interest rate risk.

END OF PAPER