

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

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. Discuss how the existence of financial intermediaries is able to help resolve the problems of imperfect information and asymmetric information.
2. Using the Diamond and Dybvig (1983) model, explain the liquidity insurance theory for the existence of banks and their susceptibility to runs.
3. Compare and contrast internal and external credit rating systems, and critically evaluate their roles in capital adequacy regulation.
4. Explain the constituents of credit risk and discuss how these risks could be managed or hedged.
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. Critically evaluate banks' use of securitisation as a means of credit risk transfer.
7. Explain the rationale for bank performance measurement and critically analyse the various methods of bank performance measurement.
8. Discuss the characteristics of call and put options, and explain how these characteristics are useful in option-based credit modelling.

END OF PAPER