

**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, 23 May 2014 : 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 information sharing coalitions and delegated monitoring resolve the problems of information asymmetry in direct financing and lead to the dominance of financial intermediation over direct financing.
2. 'The liquidity transformation function of banks makes them vulnerable to runs.' Use the Diamond and Dybvig (1983) model to explain your views on this statement.
3. Critically evaluate internal and external credit rating systems and explain their roles in the capital adequacy regulation of banks.
4. Explain the risk management process in banks, and critically evaluate the downside risk measurement techniques.
5. Discuss the motivations and techniques of Asset and Liability Management.
6. Critically analyse the advantages and disadvantages of banks' use of securitisation and credit derivatives for credit risk transfer.
7. Critically evaluate the relative merits of accounting measures and risk-adjusted measures of bank performance.
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