

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

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 transaction costs and liquidity insurance theories propose the dominance of financial intermediation over direct financing.
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 analyse the Value-at-Risk approach to risk measurement.
4. Explain the methods available to banks for credit risk modelling and management.
5. Explain how banks may manage interest rate risk by using gap analysis and interest rate swaps.
6. Explain the mechanics, costs and benefits of different forms of securitisation.
7. Analyse the importance of adjusting for risk in bank regulation and bank performance measurement.
8. Using credit derivatives as examples, explain the different structures of forwards, options and swaps.

END OF PAPER