Quiz-II (Banking Theory and Practice) Total Time: 45 Minutes

Name:

Roll No:

Q1: Consider the following information pertaining to Bank XYZ:

Balance Sheet of Bank XYZ			
Assets		**Liabilities**	
Category	**Market Value**	**Category**	**Market Value**
Vault Cash	22	Demand deposits	5
Short-term securities	18	Short-term savings	20
Long-term securities	30	Borrowings from Central bank	40
Variable-rate loans	40	Money market deposits	55
Short-term loans	20	Long-term savings	60
Long-term loans	60	Equity	20
Other long-term assets	10		
Total Assets =	200	Total Liabilities + Equity Capital =	200

The Banks XYZ's relative dollar gap ratio is ______________.

Q2: Consider the following information pertaining to Bank ZZZ:

Balance Sheet of Bank ZZZ			
Assets		**Liabilities**	
Category	Market Value	Category	Market Value
Vault Cash	35	Demand deposits	15
Short-term securities	23	Short-term savings	35
Long-term securities	45	Borrowings from Central bank	48
Variable-rate loans	64	Money market deposits	72
Short-term loans	23	Long-term savings	70
Long-term loans	60	Equity	60
Other long-term assets	50		
Total Assets=	300	Total Liabilities + Equity Capital =	300

The Banks ZZZ's interest sensitivity ratio is ___________.

Q3: A bank wishes to use 3-month futures to hedge a \$50 million positive dollar gap over the next 6 months. Face value of futures contract is \$1 million. The variability of cash market to futures market positions is 0.75. The number of contracts to be ___________ is ___________

Q4: ____________ allows a customer to borrow up to a prespecified limit, repay all or a portion of the borrowing, and reborrow as necessary until the credit line matures. One of the most flexible of all business unsecured loans and often granted without specific collateral and may be short-term or long-term.

Q5:__________ is a mode of creating charge where the ownership remains with the borrower and possession remains with the bank. It is transferred to the borrower according to the payment made to the bank.

Q6: Jack wants to start his own business. He has asked his bank for a \$50,000 new-venture loan. The bank has a policy of making discount-rate loans in these cases if the venture looks good, but at an interest rate of prime plus 2. (The prime rate is currently posted at 4.25 percent.) If Jack's loan is approved for the full amount requested, the effective interest rate on this loan for one year is closest to __________%

Q7: Suppose a bank estimates that the marginal cost of raising loanable funds to make a \$10 million loan to one of its corporate customers is 4 percent, its nonfunds operating costs to evaluate and offer this loan are 0.5 percent, the default-risk premium on the loan is 0.375 percent, a term-risk premium of 0.625 percent is to be added, and the desired profit margin is 0.25 percent. The loan rate quoted to this borrower is closest to ____________%

Q8: In order to help fund a loan request of \$10 million for one year from one of its best customers, Lone Star Bank sold negotiable CDs to its business customers in the amount of \$6 million at a promised annual yield of 2.75

percent and borrowed $4 million in the Federal funds market from other banks at today's prevailing interest rate of 3 percent. The average cost of raising the loanable funds to lend to the borrower is closest to _______ %

Q9: Under the structure of funds approach to liquidity management, ____________ refer to customer deposits of which a substantial portion will probably be withdrawn sometime during the current time period.

Q10: The following information is available for a bank:

Possible Liquidity Outcomes for next period	**Estimated Average Volume of Deposits Next Period**	**Estimated Average Volume of Loans Next Period**	**Probability Assigned by Management to Each possible outcome**
Best possible liquidity position	375	342	23%
Liquidity position bearing the highest probability	345	330	57%
Worst possible liquidity position	289	220	20%

The expected liquidity requirement for the bank is closest to INR ____________ million:

Q11: The ______________ obligate the bank to pay the beneficiary if the account party defaults on a financial obligation or performance contract.

Q12: ABC Bank borrows $125 million overnight through a repurchase agreement (RP) collateralized by Treasury bills. The current RP rate is 2.50 percent. The bank will pay $________ in interest cost due to this borrowing.

Q13: ________ is the effective interest rate per quarter for a bond with 12% annual interest rate compounded monthly

Q14: A bank raises INR 50 million in new deposits by offering its depositors an interest rate of 7%. It is estimated that if the interest rate is increased to 7.5%, the bank can raise a total of INR 70 million. The marginal cost rate of the bank is closest to __________%

Q15: Capital or net worth equals the cumulative value of assets minus the cumulative value of liabilities and represents the ownership of the firm. It is traditionally measured on a _______ basis where assets and liabilities are listed in terms of __________.

Q16: ___________ represents the funds set aside for contingencies, such as legal action against the institution, reserve for dividend expected to be paid but not yet declared, or shrinking fund to retire stock or debt in the future.

Q17: ___________ is used for capital goods' imports. Amount has to be paid in future installments on agreed terms. The exporter requires a guarantee from importer's bank.

Q18: A __________ component represents positive or negative deviations from bank's total expected deposits and loans depending upon the strength and weakness of the economy in the current year.

Q19: A company has issued floating-rate notes with a maturity of one year, an interest rate of Libor plus 125 basis points, and total face value of $50 million. The company now believes that interest rates will rise and wishes to protect itself by entering into an interest rate swap. A dealer provides a quote on a swap in which the company will pay a fixed rate 6.5% and receive LIBOR. Interest is paid quarterly, and the current Libor is 5%. Indicate how the company can use a swap to convert the debt to a fixed rate. The overall net payment (including the loan) made by the company is closest to $____________. Assume that all payments will be made on the basis of 90 days and a year contains 360 days.

Q20: Suppose that interest rates on loans have declined from 10% to 6%, and the borrowers with high fixed rate loans want to take advantage of lower rates. They can make a loan at the lower rate and pay off the high-rate loan through _______________