AFIN8003 - Workshop 10

Banking and Financial Intermediation

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1 MCQ

1. The cost of holding reserves that pay no interest at the central bank is:
   - ☐ buffer reserves
   - ☐ a reserve requirement tax
   - ☐ the liquid assets ratio
   - ☐ required by law in all countries
2. A deep market is an important consideration in the management of FI liquidity in that:
   - ☐ the FI may wish to issue more loans
   - ☐ the FI may wish to issue more equity
   - ☐ the FI could be an inactive market participant
   - ☐ the FI will need to be able to sell short-term assets quickly to convert to cash
3. Which of the following is a determinant of an FI's optimal liquid asset ratio?
   - ☐ the variability of deposit inflows and outflows
   - ☐ the yield on non-liquid assets
   - ☐ the liquidation costs of highly non-liquid assets
   - ☐ All of the listed options are correct.
4. A facility that allows a DI to utilise RBA repos, in order to obtain liquidity overnight to fund its liquidity settlement needs, is called a(n):
   - ☐ RBA repurchase agreement
   - ☐ overnight repurchase agreement
   - ☐ intra-day repurchase agreement
   - ☐ committed liquidity facility
5. Covered bonds are:
   - ☐ bonds issued by banks that have backing of a pool of high quality assets
   - ☐ bonds that are backed by the Australian government
   - ☐ bonds issued by sovereign nations and backed by the IMF
   - ☐ a pool of various assets
6. What is the primary method of meeting cash demands in modern financial institutions?
   - ☐ Asset liquidity
   - ☐ Liability liquidity
   - ☐ Securitization
   - ☐ Cash reserves
7. A high quality liquid asset (HQLA) must be:

- ☐ well rated by the rating agencies
- ☐ easy to obtain
- ☐ a long-term investment
- ☐ unencumbered and easily and immediately able to be converted into cash

8. Governments seek to protect depositors more than other DI creditors because:

   - ☐ deposits are a critical part of the financial system
   - ☐ deposits are a primary form of savings for individuals
   - ☐ non-deposit creditors are usually better placed to assess and manage risk
   - ☐ All of the listed options are correct.

9. Which of the following instruments is considered a low-cost liability but carries high withdrawal risk?

   - ☐ Negotiable certificates of deposit (NCDs)
   - ☐ Term deposits
   - ☐ Demand deposits
   - ☐ Savings accounts

2 Short answer questions

2.1 Q1

How can liquidity and interest rate risk management objectives conflict in a DI? Where possible, provide examples. Are these conflicts resolvable? Explain

2.2 Q2

How do deposit insurance and deposit guarantees help mitigate the problem of bank runs and what schemes are available in Australia to protect DI deposits?