DO NOT REMOVE THE QUESTION PAPER FROM THE EXAMINATION HALL

UNIVERSITY OF LONDON

CENTRE FOR FINANCIAL AND MANAGEMENT STUDIES

MSc Examination
Postgraduate Diploma Examination
Postgraduate Certificate Examination
for External Students

91DFMM426
FMM426

FINANCE (BANKING)
FINANCE (ECONOMIC POLICY)
FINANCE (FINANCIAL SECTOR MANAGEMENT)
FINANCE (QUANTITATIVE FINANCE)
FINANCE AND FINANCIAL LAW

Banking and Capital Markets

Specimen Examination

This is a specimen examination paper designed to show you the type of examination you will have at the end of this module. The number of questions and the structure of the examination will be the same but the wording and the requirements of each question will be different. Best wishes for success on your final examination.

The examination must be completed in **THREE** hours.

Answer **THREE** questions.

The examiners give equal weight to each question; therefore, you are advised to distribute your time approximately equally between the three questions.

The examiners wish to see evidence of your ability to use technical models and of your ability to critically discuss their mechanisms and application.

PLEASE TURN OVER

1. a) Compare the effectiveness of bank-oriented and market-oriented financial systems in carrying out the functions of risk sharing, corporate governance, and dissemination of information.

   b) What factors have influenced the development of bank-oriented financial systems in some countries, and market-oriented systems in other countries?

2. a) Explain the concepts of adverse selection and moral hazard, and provide examples of the relevance of these concepts in banking.

   b) With reference to the relevant theories, explain the role of banks in alleviating asymmetric information problems between savers and borrowers.

3. a) Describe the principal sources of risk for a bank, and in each case explain how the risk can be measured.

   b) Explain the relevance of option-pricing theory for the determination of the credit risk spread.

4. a) Explain and critically evaluate the Stiglitz-Weiss model of credit rationing.

   b) With reference to the De Meza and Webb model, explain why banks might sometimes extend too much credit.

5. a) Explain what is meant by the following terms:

      i) repo

      ii) securitisation

   b) Assess how the institutions that comprise the shadow banking sector, and the activities with which they were involved, contributed to the global financial crisis of 2007–09.

6. a) Discuss the methods available to assess how the intensity of competition in banking markets affects the profitability and stability of banks.

   b) Examine the relative importance of profit, and motives other than profit, for mergers and acquisitions in the banking industry.

7. **a)** Examine the role of a collective loss of depositor confidence in triggering a bank run in the Diamond and Dybvig model of the banking firm.

   b) Critically evaluate competing theoretical explanations for the Asian financial crisis of 1997–98.

8. **a)** Explain how panics, contagion, pro-cyclicality, and currency mismatch can contribute to systemic risk and weaken financial stability.

   b) What lessons can be learned from the global financial crisis of 2007–09 for the regulation of banks?