

UNIVERSITY OF BRADFORD

MSc GLOBAL & DOMESTIC BANKING

MAN4329M

07 January 2013

09:15 – 10:45 hours

Main

This is a **CLOSED BOOK** examination

Answer any **TWO** questions.

1. Asymmetric information in financial markets can be of one of the following types: adverse selection, moral hazard or monitoring costs. Explain and discuss differences between these three types of asymmetric information in financial markets. Support your discussion with examples.

2. Critically explain and compare a markets-oriented system (arm's length financial system) and bank-oriented (bank-based) financial system.

3. Critically analyse and discuss the rationale for bank regulation. Discuss if the Financial Services Authority (FSA) can prevent the failure of individual banks and the banking system as a whole. Use as an example Northern Rock and/or the Royal Bank of Scotland.

4. Most bank assets are financial instruments with highly asymmetric information and, as a result, they are fundamentally illiquid. Describe and critically discuss pros and cons of the securitization process as a mean of selling these illiquid assets.