

**This paper is not to be removed from the Examination Halls**

**UNIVERSITY OF LONDON**

**279 0029 ZA**

**BSc degrees and Diplomas for Graduates in Economics, Management, Finance and the Social Sciences, the Diploma in Economics and Access Route for Students in the External Programme**

**Financial Intermediation**

Wednesday, 14 June 2006 : 2.30pm to 5.30pm

Candidates should answer **FOUR** of the following **EIGHT** questions. All questions carry equal marks.

A hand held calculator may be used when answering questions on this paper but it must not be pre-programmed or able to display graphics, text or algebraic equations. The make and type of machine must be stated clearly on the front cover of the answer book.

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1. Explain the two main functions fulfilled by financial intermediaries and analyse the role of intermediaries as delegated monitors.
2. 'The threat of a bank run is an important discipline on bank management'. Critically analyse the validity of this statement.
3. Describe the nature of market risk and operational risk, and explain their treatment within the Basle capital adequacy accords.
4. Analyse the characteristics of option contracts and explain the principles of option-based credit risk models.
5. Explain the importance of liquidity risk and interest rate risk, and analyse the techniques available for measuring and managing these risks.
6. Critically analyse the different forms and structures of securitisation, and comment on the factors that influence the viability of a securitisation transaction.
7. Analyse the relative merits of accounting measures and risk-adjusted measures of bank performance.
8. Explain the importance of 'absence of arbitrage' arguments in the state preference model, the binomial option pricing model and forward pricing.

END OF PAPER