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UNIVERSITY OF LONDON

279 0094 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

Principles of Banking

Thursday, 25 May 2006 : 10.00am to 1.00pm

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

PLEASE TURN OVER

1. (a) Compare and contrast bank-based and market-based financial systems. **(13 marks)**
(b) Examine the main reasons for financial crises such as those that occurred in South-East Asia (1997-8). **(12 marks)**
2. (a) Explain what capital is and discuss the relationship between capital and solvency. **(13 marks)**
(b) Discuss how regulators currently ensure that a bank has adequate capital. **(12 marks)**
3. (a) Critically examine the role of information asymmetries in explaining the existence of banks. **(13 marks)**
(b) Examine the view that banking is in decline. **(12 marks)**
4. (a) Discuss the main risks to a bank resulting from their role as financial intermediaries. **(13 marks)**
(b) Compare and contrast the main techniques available to a bank to manage liquidity risk. **(12 marks)**
5. (a) Discuss the arguments for and against prudential regulation of banks. **(13 marks)**
(b) Discuss the contribution a system of deposit insurance can make to the maintenance of a stable banking system. **(12 marks)**
6. (a) Discuss the reasons for the growth in off-balance sheet banking. **(13 marks)**
(b) Discuss the role of securitisation in managing bank liquidity risk. **(12 marks)**
7. Examine the extent to which the foreign exchange markets conform to an efficient market.
8. Discuss the reasons for the growth in derivatives trading and examine the consequences of this for banks.

END OF PAPER