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UNIVERSITY OF LONDON

279 0094 ZB

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. Discuss the view that an economy needs banking but does not necessarily need banks.
2. (a) Explain the process of asset-backed securitisation. **(12 marks)**
(b) Examine the advantages to banks of securitising part of their loan book. **(13 marks)**
3. (a) Examine the arguments for and against free (unregulated) banking. **(13 marks)**
(b) Critically examine the effectiveness of the disclosure based system of regulation used in New Zealand. **(12 marks)**
4. (a) Explain the efficient markets hypothesis. **(10 marks)**
(b) Discuss how the efficient markets hypothesis can be tested. **(15 marks)**
5. (a) Explain, giving examples, exchange rate risk. **(10 marks)**
(b) Compare and contrast the use of forwards and options for managing exchange rate risk. **(15 marks)**
6. (a) Explain purchasing power parity and covered interest parity in the context of foreign exchange markets. **(15 marks)**
(b) Explain, giving examples the nature of arbitrage and speculation within the context of the foreign exchange markets. **(10 marks)**
7. Explain what disintermediation is and examine the consequences of disintermediation for banks.
8. (a) Explain moral hazard and adverse selection. **(10 marks)**
(b) Explain how banks are able to mitigate moral hazard and adverse selection in the lending/borrowing transaction. **(15 marks)**

END OF PAPER