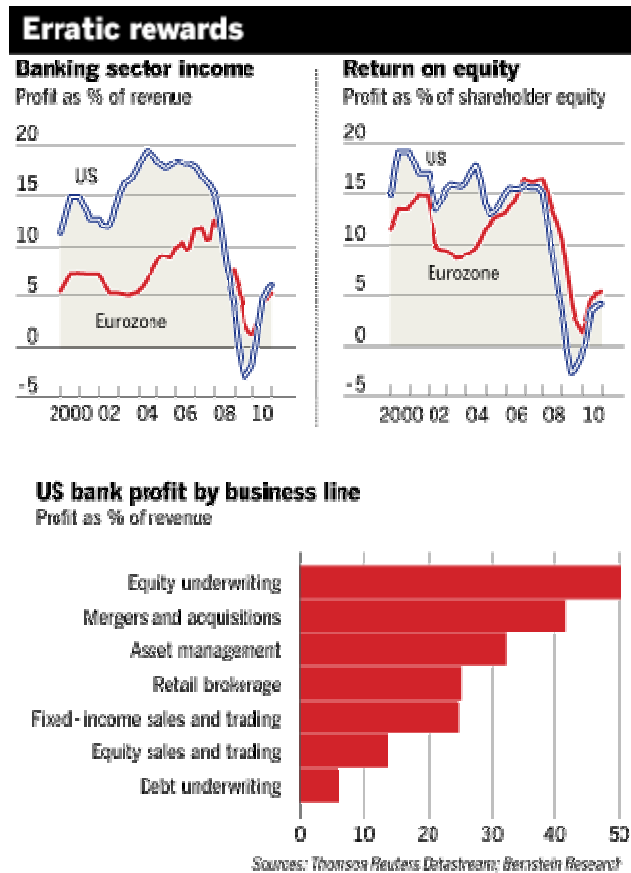


**Inglês I**  
**Época Normal**  
 7 January 2011  
 18.00 – 20.00

**A. Writing** (12.5 points)

Write a text that explains the trends shown in the graphs below. (Length 2/3-1 page)



*\*Equity underwriting:* When an investment bank underwrites equity for a company, it undertakes to secure the price and sale of a new issue of stocks or bonds. If a bank has taken the risk and responsibility to sell a specific amount of securities, and it can't sell them as planned, it may have to buy them itself.

**B. Reading Comprehension** (5.5 points)

Read the text on p 2 and answer the questions that follow.

## Fat fees, few banks

1. Published: March 21 2010 17:46 | Last updated: March 21 2010 17:46

When the number of participants in a market declines and fees rise, there is clearly a prima facie case for a competition investigation. Just such a situation obtains in the post-crisis investment banking market, and the Office of Fair Trading in the UK is right to think about examining it.

5. As with the wider banking market, the investment banking field has contracted thanks to the crisis. Two large players – Lehman and Bear Stearns – have disappeared, while others have been forced to contract. Fee levels are rising in some areas. The UK insurer Prudential is paying \$1bn to underwrite its \$20bn rights issue. A few years ago, underwriting fees were closer to 2 per cent than 5 per cent.

10. Any investigation must be broad in scope. It should examine how the sector maintains such high profitability – and hence rewards its employees so lavishly. The bankers argue that this is attributable to the excellence of their product. But since the meltdown, **this claim** is hard to sustain.

15. There is little price competition in investment banking. The large global firms charge similar amounts for underwriting and M&A services. Such discipline is only possible if the barriers to entry are high. Circumstantially, **this** seems to be the case. There have been few new entrants, and those there are have **done so** through acquisition.

20. The continuing concentration of business into ever fewer hands opens the door to substantial conflicts of interest. The “financial supermarket” model allows banks to advise companies, sell them financial products and also trade on their own account in those products also. It is not clear that the companies that buy investment banking services are sufficiently alive to the pitfalls of **this**. Chief executives of businesses appear more concerned about successful execution than price, and equate this with brand names. No one, they say, ever got fired for hiring Goldman Sachs.

25. Investment banking services are like a tax on stock market returns. During the boom it is estimated that **they** cut returns by about half a percentage point a year. This could actually increase because of the additional capital and liquidity burdens that are likely to be placed on the industry. Regulators acknowledge that these costs will be passed on to clients.

30. A competition review must therefore go hand in hand with regulatory reform. An OFT probe would at least be a start. If the time is not ripe now, when will it ever be?

*The Financial Times*

What do the terms in bold in the text refer to? (0.5 points each)

1. **this claim** (line 15);
2. **this** (line 18);
3. **done so** (line 19);
4. **this** (line 26);
5. **they** (line 30).

Choose the best answer to complete the sentence or answer the question. (0.5 points each)

6. The main purpose of the article is
  - a) to persuade the reader that the Office of Fair Trading should investigate investment banking practices;
  - b) to persuade the reader that there should be more regulation in investment banking;
  - c) to explain to the reader why investment banks make such large profits.
7. Since the financial crisis underwriting fees have
  - a) increased;
  - b) dropped;
  - c) stayed the same.
8. The writer thinks that
  - a) investment banks offer their clients excellent service;
  - b) investment banks are able to charge high fees because there is little competition;
  - c) the proliferation of investment banks since the financial crisis is cause for concern.
9. The writer probably thinks that
  - a) investment bankers deserve the high pay and bonuses they receive;
  - b) investment banks have too much power;
  - c) investment banks are profitable because they offer an excellent product.
10. Which sentence is false?
  - a) Companies that buy investment bank services are prepared to pay high prices for these services because the benefits outweigh the cost;
  - b) Companies will probably have to pay higher investment banking fees in the future;
  - c) Companies are aware of the consequences of investment banks being able to advise them, sell them financial products and trade on their own account in services.
11. According to the article, the financial crisis prompted
  - a) questions about the adequacy of regulation of investment banking;
  - b) regulations that require investment banks to hold higher amounts of capital to be implemented;
  - c) both a) and b).

### C. Vocabulary (2 points)

Complete each sentence with an expression similar in meaning to the explanation in brackets. The first letter of the keyword is given to help you. You may need to add a preposition and you will need to conjugate verbs. (0.4 points each)

1. SocGen admitted that it was writing down the value of various assets, including *m... b... s...* and credit default swaps, by a total of €1.4bn (£1.25bn). (securities based on a group of mortgages)
2. Revenue growth *s...* after a long period of decelerating trends. (has levelled off)
3. Meanwhile, the "green investment bank", once a flagship policy, *d...* to be a much more modest fund. (has had its status reassessed so that it is now not as strong as it was)
4. The City regulator's move to ban *s... s...* of stocks comes despite evidence that the practice may not have been as significant in this week's collapse of HBOS's share price as has been suggested. (the practice of borrowing an asset, selling it, then buying it back in the hope that the price of the asset has fallen in the meantime)
5. First-time buyers and those with little *e...* in their homes will not be surprised to learn that, as in other areas of life, the mortgage market is one of two halves: one for the rich and one for the less well off. (the amount the house is worth minus the amount of mortgage debt that is outstanding on it)

## Answers

### B. Reading Comprehension

1. this claim → the bankers' argument that their high fees are justified by the excellence of their product
2. this → the barriers to entry are high
3. done so → entered the investment banking sector/market
4. this → the "financial supermarket" model that allows banks to advise companies, sell them financial products and also trade on their own account in those products
5. they → investment banking services
6. a.
7. a.
8. b.
9. b.
10. c.
11. a.

### C. Vocabulary (2 points)

Complete each sentence with an expression similar in meaning to the explanation in brackets. The first letter of the keyword is given to help you. You may need to add a preposition and you will need to conjugate verbs.

6. SocGen admitted that it was writing down the value of various assets, including *mortgage-backed securities* and credit default swaps, by a total of €1.4bn (£1.25bn). (securities based on a group of mortgages)
7. Revenue growth has *stabilized* after a long period of decelerating trends. (levelled off)
8. Meanwhile, the "green investment bank", once a flagship policy, has been *downgraded* to be a much more modest fund. (has had its status reassessed so that it is now not as strong as it was)
9. The City regulator's move to ban *short-selling* of stocks comes despite evidence that the practice may not have been as significant in this week's collapse of HBOS's share price as has been suggested. (the practice of borrowing an asset, selling it, then buying it back in the hope that the price of the asset has fallen in the meantime)
10. First-time buyers and those with little *equity* in their homes will not be surprised to learn that, as in other areas of life, the mortgage market is one of two halves: one for the rich and one for the less well off. (the amount the house is worth minus the amount of mortgage debt that is outstanding on it)