



## **Master in Monetary and Financial Economics**

### **Banking and Insurance**

**Exam – 30 January 2018**

Time: 2h

1. Identify the main pros and cons of debt in the economy and the measures available to authorities to tackle potentially excessive debt increases. (3,0/20)
2. Characterize the evolution of bank credit in the first decade of the current century in the Portuguese financial system, as well as its main impacts. (3,0/20)
3. According to the Bank of Portugal (Financial Stability Review, June 2017):

“Expectations of a protracted low short-term interest rate environment remain, with the consequent pressure on financial sector profitability (...)”.

Please comment this quote, describing the relevance of interest rate risk for banks and the main techniques you could use to assess it, characterizing this risk in the Portuguese banking system. (3,0/20)

4. Assess the main reasons why significant capital increases were done during the current decade in the Portuguese banking system, also describing the role of capital for banks. (4,0)
5. Identify the main indicators usually considered to characterize the aggregate credit risk of a bank's balance sheet and the impact of this risk on profitability. (3,0)
6. Characterize the main changes brought by Basel II and Basel III regarding solvency and liquidity. (4,0)