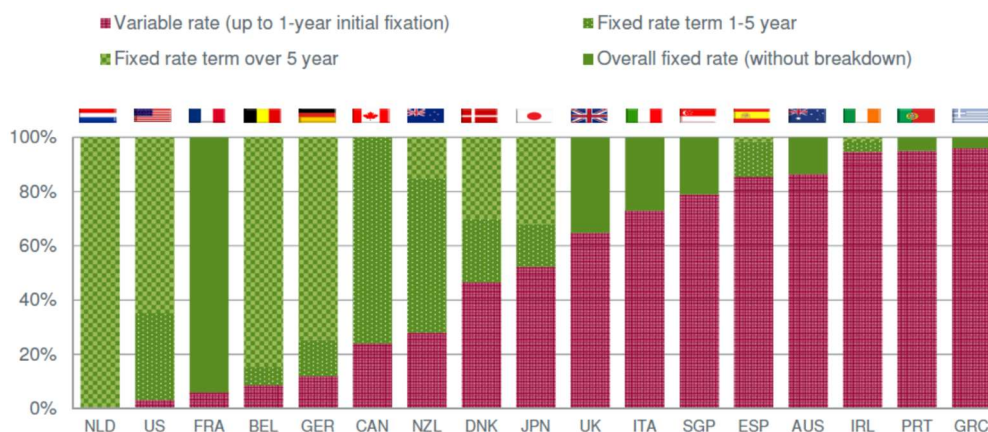


Master in Monetary and Financial Economics

Banking and Insurance

Exam – 4 February 2020

1. Consider the chart below about the pricing structure of loans in different banking systems and answer to the following questions:



Source: Fitch (2016), 2016 Fitch Credit Outlook Conference, Lisbon, 28 Jan.

- 1.1. Characterize the risk illustrated for the Portuguese banking system, also identifying its sources. **(3.0 points)**
- 1.2. Describe the main indicators to assess that risk. **(2.5 points)**
- 1.3. Propose strategies that can be implemented to mitigate it. **(2.5 points)**
- 1.4. How can this risk interact with other relevant risks faced by banks? **(2.0 points)**

2. Assuming that, as the CEO of a retail bank in Portugal, you have decided to increase the bank's leverage, answer to the following questions:

2.1. How can this strategy increase the net income of the bank? **(3.0 points)**

2.2. What would be the main funding decisions to support this strategy? **(2.0 points)**

2.3. What would be the main macroprudential concerns raised? **(2.5 points)**

2.4. Identify the main regulatory constraints to tackle the concerns under analysis in the previous question. **(2.5 points)**