

Master in Monetary and Financial Economics

Banking and Insurance

Exam – 1 February 2021

1. Explain the impact of credit risk on banks':
 - (i) loan pricing
 - (ii) capital requirements
 - (iii) net income
 - (iv) profitability
 - (v) asset quality indicators(6,0)

2. Describe the impact on a bank's risks of a decision to offer 30-year fixed rate residential mortgage loans and the measures that should be put in place to mitigate those risks. (4,0)

3. Explain the role of banks in the transmission of monetary policy effects, calculating the impact of an injection of 5 000 Million Euros of liquidity by the European Central Bank, through an open market operation, assuming:
 - (i) reserve requirement rate = 5%
 - (ii) coefficient of preference for central bank's money = 10%
 - (iii) excess reserves coefficient = 20%(5,0)

4. Explain the role of monetary policy and prudential regulation in avoiding excessive levels of bank credit. (2,5)

5. Explain the role of securitization and credit derivatives in the subprime crisis. (2,5)