

UNIVERSITY OF PORTSMOUTH

Portsmouth Business School

**Economics of Banking and Money
U04833B**

**Level M Semester 1
January/February 2010**

Answer any **TWO** questions.

Time Allowed: 2 Hours

**Calculators that are *capable* of holding text are not permitted in
examinations**

(for the purposes of identification calculators capable of holding text will have
an alpha-numeric keypad, ie a-z letters)

Specialist dictionaries such as Legal, Business, Technical or Accounting Dictionaries etc. are
not allowed in the exam. International students for whom English is a second language are
allowed to take into the exam one bilingual paper based dictionary containing no annotations.
Otherwise the normal University of Portsmouth Examination Regulations will apply.

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Department: Economics

Question 1

Banking sectors need to be closely monitored through stringent prudential controls in order to operate efficiently. Without effective regulatory influence, banks take excessive risks, which are almost always detrimental to society.

Discuss the validity of the above statement in the context of the advantages and disadvantages of prudential control and regulation. How has the USA regulatory environment evolved to meet the needs of the modern banking sector?

Question 2

The modern day banking industry is faced with a variety of challenges including the management of risks. Critically evaluate the use of risk management methods used by modern day banking professionals. Explain your answer by highlighting the effectiveness of each method.

Question 3

- a. Critically evaluate the use of the total factor productivity approach in banking. By using this approach, what do empirical results show about the performance of banks in Europe and USA?

[60% of question marks]

- b. Outline what is meant by the concept of a contestable banking market and discuss the extent to which contestability has been found by academic studies in the banking sectors of developed economies.

[40% of question marks]

Question 4

Banks may fail for a variety of reasons, some of which are stated below:

- a. Derivative market exposure
- b. Foreign exchange market exposure
- c. Lack of internal control
- d. Weak asset management
- e. Overseas exposure
- f. Lack of regulatory control
- g. Management fraud

Critically explain the extent to which each of these reasons have played a part in bank failures of the last 50 years.

***** END OF EXAM *****