SEMESTER TWO 2025-26

Aberystwyth Business School

ABM1520 Banking and Financial Intermediation

Time allowed: **THREE HOURS**

This examination consists of six questions.

Each question carries **25 marks**.

You may attempt any **four** questions.

The maximum obtainable mark is **100**

This examination contributes **70%** to the overall module mark.

Any necessary assumptions introduced in answering a question are to be stated.

CALCULATORS ARE PERMITTED (Casio FX991, FX85 or FX83 models only)

STUDENTS MAY SUBMIT ANSWERS TO THIS PAPER IN EITHER WELSH OR ENGLISH

Once seated, students may complete the front cover of the answer book(s) and the attendance slip ONLY.

DO NOT TURN THE EXAMINATION QUESTION PAPER OVER UNTIL INSTRUCTED TO DO SO.

Answer any FOUR out of the six questions

Question 1 (25 marks)

"The distinctions between direct and indirect finance have profound implications for economic growth, financial stability, and the structure of modern financial systems."

Critically evaluate the above statement with reference to direct finance and indirect finance.

Required:

a) Critically analyse the theoretical foundations of direct and indirect finance, highlighting how each mechanism allocates capital and contributes to economic growth and financial stability.

(8 marks)

b) Evaluate the advantages and disadvantages of direct and indirect financing methods, considering their differentiated impacts on key stakeholders, including households, firms (large corporates and SMEs), governments, financial intermediaries, and regulators.

(8 marks)

c) Assess the role of asymmetric information in shaping the effectiveness of direct and indirect finance, examining how adverse selection and moral hazard are mitigated in each system and the implications for market efficiency and systemic risk.

(9 marks)

Total 25 marks

Question 2 (25 marks)

Credit rationing and overlending are critical concepts in understanding credit risk and its management in banking.

Required:

a) Explain the concepts of credit rationing and overlending and discuss their impact on the banking sector in terms of credit risk and its management.

(12 marks)

b) Critically analyse how credit rationing and overlending shaped systemic risk, using financial crises, such as the Global Financial Crisis 2007-09, Eurozone debt crisis, or other relevant cases.

(13 marks)

Total 25 marks

Turn Overleaf

Question 3 (25 marks)

"As FinTech continues to evolve, its relationship with traditional banking systems grows increasingly complex."

Required:

a) Define and discuss the major types of risks faced by banks, and

(10 marks)

b) Analyse the effects of different FinTech innovations on banks' ability to manage these risks.

(15 marks)

Total 25 marks

Question 4 (25 marks)

The Chinese Cross Company (CCC) has been funding its London subsidiary primarily with U.S. dollar debt because of the cost and availability of dollar capital as opposed to Chinese Yuan-denominated debt. The treasure of CCC is considering a one- year bank loan for $500,000. The current spot rate is ¥6.37/$, the dollar-based interest rate is 3.25% for the one-year period. One year Yuan-based borrowing rate is 3.70%.

Required:

a) Assuming expected inflation rates of 6.25% and 4.90% in the United States and China, respectively, for the coming year, according to purchase power parity, what would the effective cost of funds be in Chinese Yuan terms?

(10 marks)

b) If CCC's foreign exchange advisers believe strongly that the Chinese government wants to push the value of the Yuan down against the dollar by 2.00% over the coming year (to promote its export competitiveness in dollar markets), what might the effective cost of funds end up being in Yuan terms?

(8 marks)

c) Comment on the findings in part (a) and part (b) above if one year borrowing rate is dropping to 3.50% in Chinese Yuan.

(7 marks)

Total 25 marks

Turn Overleaf

Question 5 (25 marks)

"The economic conditions and priorities of nations play a significant role in their choice of exchange rate regimes."

Consider the implications of an emerging market's decision to adopt either a floating regime, which reacts to market forces, or a fixed regime, which pegs its currency to another strong currency.

Required:

a) Summarise the risks and benefits associated with adopting a floating exchange rate regime versus a fixed exchange rate regime.

(10 marks)

b) Critically analyse how external factors: international trade relations, inflationary pressures, and political stability influence the choice of exchange rate regime for emerging markets.

(15 marks)

Total 25 marks

Question 6 (25 marks)

The financial system is among the most heavily regulated sectors of the economy, and banks are among the most heavily regulated financial institutions. Formed in the 1970s, Basel Committee on Banking Supervision (BCBS) is designated to provide the global regulatory framework by which international banks will be regulated. Since its formation, the BCBS has provided three regulatory frameworks known as Basel I, Basel II, and Basel III/IV accords.

Required:

a) Critically appraise the major provisions of Basel I, Basel II, and Basel III accords.

(15 marks)

b) Discuss the impact of the three Basel accords on banks' performance.

(10 marks)

Total 25 marks

End of Paper