**İsmayılova Nigar\_Pul və banklar**

1. What are the three functions of money? Imagine two countries, one that uses music CDs as money, and the other that uses provolone cheese as money. Discuss the advantages and disadvantages of each of these two goods in their role as money?
2. Define the primary and secondary markets, instruments traded and participants.
3. Why is inflation harmful to an economy? Why is deflation harmful to an economy? What are the three roles of money? And what are two types of money?
4. Give the definition and indicate money markets instruments.
5. Explain the difference between direct and indirect finance. What role do financial intermediaries and financial markets play in this process? Explain whether direct or indirect finance is a more important source of funds and why this is the case. Give at least one example of each – a direct finance transaction and an indirect finance transaction.
6. Indicate and define capital markets instruments and participants.
7. How does a bond differ from a stock? Why is the stock market so important to individuals, firms, and the economy?
8. What is financial intermediation? Indicate different type of financial intermediates?
9. There are three fundamental reasons for having banks: moral hazard, adverse selection and liquidity. Briefly describe these and discuss their importance.
10. Why is it so important for an economy to have fully developed financial markets? Why are financial intermediaries so important to an economy?
11. Describe the asymmetric information problems that a bank faces when considering a loan application from a firm? How can a bank attempt to solve these problems?
12. What concept is used to value a bond? Why are long-term bonds more risky than short-term bonds?
13. Distinguish between interest rates, yield to maturity, and current yield. Describe the cash flows received from ownership of a coupon bond. What are the sources of income?
14. Please draw the supply and demand curves for the bond market. What happens when the government's deficit increases and borrows more from the financial markets?
15. Describe how default risk, liquidity and tax consideration affect the interest rates.
16. Explain the difference between the nominal and real interest rates using the Fisher equation.
17. Explain the theory of Portfolio choice. Indicate all determining factors (expected return, liquidity, risk, wealth).
18. Name three factors that shift demand curve for bonds to the right. Eхplain your answer.
19. Adverse selection and the moral hazard are both problems of asymmetric information in financial markets. Briefly explain the two concepts and what their major difference is. b) Provide a rationale for government regulation in financial markets

that is based on an asymmetric information argument.

1. Which of the following bonds would have highest returns: a corporate Aaa bond, a Treasury Bill, a corporate Baa bond? What determines the differences in returns among these bonds?
2. Consider a Treasury note with a face value (value at maturity) of $1,000. The note matures in exactly 4 years. The note pays an annual coupon and the coupon rate is 5%. The market rate of interest for 4 year Treasuries is 6%. (a) How much is each annual coupon payment? (b) Write out the cash flows from the bond, discount them at the appropriate rate, and solve for the price of the bond (c) Is the bond selling at, above, or below par?
3. Assume that the expected path of 1-year interest rates over the next five years is 3 percent, 4 percent, 5 percent, 5.5 percent, and 6 percent. Use the expectations hypothesis to determine the yields on bonds with the following maturities: one year, two years, three years, and four years.
4. Suppose the retailing giant ABCD is selling an innovative new bond issue with scheduled payments of $2000 at the end of one year, $2500 in two years, $3000 in three years, and $5000 at the end of the fourth year. You’ve identified similarly risky investments that you expect would generate a 11% annual return. How much you would will to pay for one of these bonds.
5. You buy a $1000 face-value, 30-year, coupon bond with 6% coupon rate for $600. What is the current yield of this bond? Suppose that you sell this bond next year for $610, what is the holding period return on this bond?
6. If the interest rate is 6%, what is the present value of a security that pays you $1,100 next year and $1,150 two years from now? If this security sold for $2200, is the yield to maturity greater or less than 6%? Why?
7. Outline an efficient market hypothesis.
8. Give definition of the Theory of Rational Expectations, define its implications.
9. Give definitions and provide example of the Generalized Dividend Valuation Model.
10. How Adverse Selection Influences Financial Structure. Tools to help reduce adverse selection problems
11. Basic puzzles about financial structure. Describe why asymmetric information leads to adverse selection and moral hazard
12. Which firms are most likely to use bank financing rather than to issue bonds or stocks to finance their activities? Why?
13. What is financial crisis, identify the key features of the three stages of a financial crisis. Outline at least three main causes of the sub-prime crisis in USA.
14. fter 2000 very low interest rates because: fear of deflation after
15. internet bubble; Asian countries bought US securities to protect export
16. friendly levels of exchange rate; “Great moderation” has low stable
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18. o Increase in housing demand
19. o Banks search for high-yield returns even more
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32. “Originate and Hold Model” “Originate to Distribute Model”
33. • Banks originate LOANS and hold
34. them until maturity
35. • If succeeds, banks make profit if not
36. then collateral or loss
37. • Strong incentives to select and
38. monitor customers
39. • Before 2000 only prime could
40. obtain a loan
41. • Banks transfer credit risk of loans
42. and mortgages to others
43. • They do that by:
44. 1) Originate the loan and sell it
45. outright
46. 2) Securitization (process of
47. transforming illiquid assets
48. into marketable debt
49. securitie

33. Outline the basic principles of Bank Management: liquidity management, asset management and capital management

34. Functions of Commercial Banks, structure of banks balance sheet.

35. Bank`s management of credit risk and interest rate risk.

36. Bankers face informational problems on both sides of their business.  Explain the adverse selection and moral hazard problems that arise between a bank and its depositors.  How are these problems dealt with? b)  Explain the moral hazard and adverse selection problem that arises between a bank and its borrowers. How are these problems dealt with?

1. Asset management
2. 3)goals
3. Reduce risk diversity
4. seek to obtain higher interest income
5. have adequate liquid assets
6. 4) tools
7. Diversi@ to reduce risk
8. Purchase high earning securies
9. Find high quality borrower
10. Balance liquidity needs with the need to earn income
11. Give definition of forward contract. What is the difference between a long forward position and a short forward position?
12. Briefly discuss the process of financial innovation, with particular emphasis on the responses to changes both in demand and supply conditions.
13. Outline the operations of non-bank financial institutions and how they are regulated.
14. Why has the number of banks declined since the 1980s? Overview Glass-Steagall Act and explain exactly how Glass-Steagall Act limited banks in the securities business.
15. Explain the process of securitization that is carried out by banks and discuss the reasons why banks may wish to engage in such a process. Discuss the role of securitization in the 2007/8 global financial crisis.
16. Explain the difference between a commercial bank and an investment bank. Explain the difference between required reserves and excess reserves.
17. Give definition of forwards, futures and options and indicate main differences between forwards and futures.
18. Compute the profits of an investor who bought for a $300 premium a *put* option on 120 stocks with a strike price of $1100, if at the expiration date the price is $1000.
19. The dividend on Simple Motors common stock will be $6 in 1 year, $6.35 in 2 years, and $7.00 in 3 years. You can sell the stock for $125 in 3 years. If you require a 12% return on your investment, how much would you be willing to pay for a share of this stock today?
20. If Big Amp, Inc. stock closed at $54 and the current quarterly dividend is $0.75 per share, what dividend yield would be reported for the stock in The Wall Street Journal?
21. Assume a required reserve ratio of 0.10 to complete the following.

|  |  |
| --- | --- |
| **Assets** | **Liabilities & Net Worth** |
| Reserves $ 120 million | Deposits $ 400 million |
| Loans $ 200 million | Bank Capital $ 50 million |
| Bonds $ 130 million |  |
| **TOTAL: 450 Million** | **TOTAL: $ 450 Million** |

* + 1. Calculate the initial ***required reserves*** for this bank.
    2. Calculate the initial ***excess reserves*** for this bank.
    3. Convert all of the excess reserves into loans. Construct the new balance sheet.

1. Your bank has the following balance sheet:

|  |  |
| --- | --- |
| **Assets** | **Liabilities** |
| Reserves $ 80 million | Checkable deposits $300 million |
| Securities $120 million | Bank capital 50 million |
| Loans $ 150 million |  |

If the required reserve ratio is 10%, what actions should the bank manager take if there is an unexpected deposit outflow of $80 million? How much is reserve shortfall?

1. A trader enters into a short cotton futures contract when the futures price is 52 cents per pound. The contract is for the delivery of 50,000 pounds. How much does the trader gain or lose if the cotton price at the end of the contract is (a)45.20 cents per pound; (b)53.60 cents per pound?
2. An investor enters into a short forward contract to sell 100,000 British pounds for US dollars at an exchange rate of 1.4500 US dollars per pound. How much does the investor gain or lose if the exchange rate at the end of the contract is (a) 1.3800 and (b) 1.4800?
3. Please list three variables in our economy that the central bank can influence?
4. History of Federal Reserve System, its main functions and structure. The Fed is the most independent of all U.S. government agencies. What is the main difference between it and other government agencies that explains its greater independence?
5. Explain the main goals of monetary policy pursued by the U.S. Federal Reserve.
6. Besides open-market operations, what other means does the Federal Reserve have for controlling the money supply? Explain how these alternative methods work.
7. List the major tools of monetary policy in the Federal Reserve System's possession. Explain how they work and which one is the most important one.
8. How European System of Central Banks is different from Federal Reserve System.
9. Explain the advantages and disadvantages of central bank independence drawing on the experience from a country of your choice.
10. Keynes’s Theory of Money: Liquidity Preference Theory. Discuss the transactions, precautionary, and speculative motives for holding money in Keynes liquidity preference theory
11. Indicate the factors that determine the demand for money.
12. Friedman’s Modern Quantity Theory of Money.
13. What was the FDIC designed to help prevent? How does FDIC insurance lead to moral hazard.
14. Give a full definition of the market for foreign exchange. Who are the market participants in the foreign exchange market? Factors That Affect Exchange Rates in the Long Run
15. Indicate and give characteristics of different exchange rate regimes in the International Financial System.
16. The role currently played of the International Monetary Fund (IMF) in global financial markets. Currently, what are the principal functions of the IMF.
17. Explain the IS-LM Model, what IS and LM curves represents, show graphically.
18. Super Computer Company's stock is selling for $100 per share today. It is expected that this stock will pay a dividend of 5 dollars per share, and then be sold for $120 per share at the end of one year. Calculate the expected rate of return for Super Computer Company ‘s stock.
19. You are going to choose between two investments. Both cost $50,000, but investment A pays $25,000 a year for 3 years while investment B pays $20,000 a year for 4 years. If your required return is 12%, which should you choose?
20. We know that the required reserve ratio (rd) is 10%. Assume that the banking system has an excess reserves equal to $ 4 billion. Further, the currency in circulation equals $ 450 billion, and the total amount of checkable deposits equals $900 billion. Based on these numbers, calculate

(a) required reserves held by the banking system

(b) total reserves held by the banking system,

(c) monetary base

(d) total money supply (M1)

1. The current spot exchange rate is $1.95/£ and the three-month forward rate is $1.90/£. Based on your analysis of the exchange rate, you are pretty confident that the spot exchange rate will be $1.92/£ in three months. Assume that you would like to buy or sell £1,000,000.

a. What actions do you need to take to speculate in the forward market? What is the expected dollar profit from speculation?

b. What would be your speculative profit in dollar terms if the spot exchange rate actually turns out to be $1.86/£.

1. You read in your newspaper that yesterday’s spot quote was cad/gbp 2.3134­ 2.3180. (a) This is a quote for which currency? (b) What is the ask rate for cad? (c) What is the bid rate for gbp*?*
2. Use the following data to answer the next 5 questions. Assume that transactions accounts and demand deposits are the same thing.

|  |
| --- |
| Vault Cash - $40 mln |
| Member Bank Deposits at Fed - $10 mln |
| Currency in Circulation (i.e., in the hands of the non-bank public) - $775 mln |
| Travelers Checks - $8 mln |
| Transaction Accounts (Demand deposits) - $675 mln |
| Time & Other Savings Accounts - $1,500 mln |
| Retail Money Market Accounts 800 |

a)What is the level of the Monetary Base?

b)What is the level of total bank reserves?

c)What is the level of M1?

d)What is the level of M2?

1. WT Co. has just now paid a dividend of $6 per share (Do), the dividends are expected to grow at a constant rate of 5% per year forever. If the required rate of return on the stock is 15%, what is the current value on stock (after paying the dividend)?
2. An investor has paid $3 for a call option with a strike price, X, of $60. At expiration the underlying stock price is $65. Should then the investor exercise the call option at expiration? Explain.
3. Assume you just deposited $1,000 into a bank account. The current real interest rate is 2%, and inflation is expected to be 6% over the next year. What nominal rate would you require from the bank over the next year? How much money will you have at the end of 1 year? If you are saving to buy a stereo that currently sells for $1,050, will you have enough to buy it?
4. The current spot exchange rate is $1.95/£ and the three-month forward rate is $1.90/£. Based on your analysis of the exchange rate, you are pretty confident that the spot exchange rate will be $1.92/£ in three months. Assume that you would like to buy or sell £1,000,000.a. What actions do you need to take to speculate in the forward market? What is the expected dollar profit from speculation?

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