BİLGİ ÜNİVERSİTESİ BAN 442 Banking & Financial Markets Final Exam 11.06.2018

Q (1) (25 marks) Prepare a Commercial Bank Balance Sheet using your own numbers.

Q (2) (25 marks) Liquidity Management is important for banks and supervisory authorities require banks to maintain certain minimum liquidity requirements.

1. Make a simple definition of a “Liquidity” requirements for a commercial bank. (5marks)
2. There are 4 different “Liquidity Risks” every bank should manage. Explain each 4 risks in detail. (20 marks)

Q (3) (25 marks) If not managed properly, “Foreign Exchange Risk” for banks in developing countries generates losses.

A) Explain in detail the 4 different kinds of Foreign Exchange Risks. (15 marks)

B) Explain in detail the 2 different Foreign Exchange Position Strategy of a bank (Long & Short)

Q (4) (25 marks) A 3-year bond with a yield of 8% (continuously compounded) pays a 5% coupon at the end of each year. Par value of the bond is $100.  
  
a) What is the bond’s price?   
b) What is the bond’s duration?   
c) Use duration to calculate the effect on the bond’s price of a 0.2% increase in its yield.   
d) Use both duration and convexity to calculate the effect on the bond’s price of a 2% increase in

its yield.