

Written Exam for the M.Sc. in Economics 2007-I  
**Monetary Economics: The Economics of Banking**  
Master's Course  
21.December 2006  
(4-hour closed book exam)

Please note that the language used in your exam paper must correspond to the language of the title for which you registered during exam registration. I.e. if you registered for the English title of the course, you must write your exam paper in English. Likewise, if you registered for the Danish title of the course or if you registered for the English title which was followed by "eksamen på dansk" in brackets, you must write your exam paper in Danish.

If you are in doubt about which title you registered for, please see the print of you exam registration from the students' self-service system.

### **Problem 1**

In a country there have been complaints for a long period over the high levels of interest and also over the difficulties of obtaining credits even at the high interest rates. Over several years, the banking sector has been liberalized so that by now it works under the conditions of a free market. Also, the business community of the country has traditionally been characterized by high degree of openness, so that the banks can follow the way in which their borrowers use the credits obtained.

Give a theoretical explanation of the observed phenomena in the credit market, and give some suggestions based on this explanation of how to improve the access to credits of the local business community.

### **Opgave 2**

A newly opened bank has as its field of business the supply of credits to small restaurants in the area. There are two types of such restaurants, namely grillbars with a small but steady income, and gourmet restaurants whose earnings are subject to very great variations. Earlier attempts to service both types of restaurants have failed as the interest rate demanded turned out to be too high for the establishment of grillbars with borrowed capital.

Give a discussion of what the bank can do to attract both types of costumers. What will be the effect when it turns out that competing banks also become interested in this line of business?

### **Opgave 3**

It is contemplated to extend the rules currently applied to banks which demand a certain solvency ratio (equity in relation to a weighted sum of assets) of 8%, so as to apply now to all firms engaged in portfolio management.

Give a theoretical framework for these considerations, and discuss whether solvency ratios make sense in this framework. How should the weights be determined if the goal is that the sector should function as efficiently as possible, and it is assumed that weights may be changed from one period to the next?