Written Exam at the Department of Economics summer 2026

Economics of Banking

Final Exam

26.5.2026

(3-hour written, no aids allowed)

Answers only in English.

This exam question consists of 3 pages in total

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1. After several bank failures which turned out to be costly for the public finances, it is decided that banks in trouble should principally be helped out by other banks, either by loans or by take-overs. As the banks are already connected in the interbank market, an extension of its working to cover emergencies would be natural. The financial authorities should step in only if the situation could not be sorted out by the banks themselves. Give a brief description of the interbank market, its purposes and the possible shortcomings in situations where the general credit markets are uncertain.

It is argued that the otherwise acceptable functioning of the intermarket could be damaged if the competing banks can decide when and how to reconstruct a bank with liquidity needs. Explain and comment on this argumentation.

2. Over some time many households have collected large sums of money as ordinary liquid deposits with the banks, often much larger than what is covered by the deposit insurance. Given the uncertain economic situation, this is considered as a problem, and it is argued that the limit for deposits covered by the insurance should be increased. Discuss the reasons for having a mandatory deposit insurance as well as the possible drawbacks, and comment on the situation described based on this discussion.

Instead of increasing the deposit insurance, it is proposed that banks should post a collateral of securities with the central bank for deposits not covered by deposit insurance, so that the depositors would be reimbursed if the bank defaults. Give an assessment of this proposal from the viewpoints of depositors, banks and society as a whole.

3. A newly established innovative field of business has many small entrepreneurs with limited access to capital so that they depend on credits from the banks. Some of the firms have had very large profits but a large part of the start-ups fail during a period of only two years, and the success of an enterprise seems to depend not only on technical skills and knowledge of the market but also on factors beyond its control.

The sector is complaining that the banks are too reluctant in providing credits for its firms. Give a model-based discussion of whether or not this complaint is justified, and give suggestions for a regulation of this particular credit market.

As a consequence of a changing political situation, it is decided that government purchases of the sector's production should be increased drastically. For the small firms it means that sales will be stable and satisfactory provided that their particular design will be accepted. Does this change the previous considerations, and if it does, how?