

Written Exam at the Department of Economics summer 2025

Economics of Banking

Re-Exam

20.8.2025

(3-hour written aids allowed)

Answers only in English.

This exam question consists of 2 pages in total

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Re-Exam 2025

1. In connection with a reorganization of the deposit insurance it is decided that the payments of the banks should be revised in order to obtain a more differentiated payment structure. Give suggestions based on banking theory on how this could be achieved.

It is argued that a fair insurance premium should always depend on the underlying risk, and therefore the banks' payments should have a relation to the riskiness of their loan portfolios. Discuss the argument and consider whether it is possible in practice to let the payment depend on the banks' risk at least to some degree.

2. A small bank has traditionally supplied credits to the local business community. Interest rates were moderately high, and although lower interest rates were asked for by many entrepreneurs, the bank would point to considerable losses on loans which had been subject to higher risk than the bank could anticipate. Give a suggestion on how the bank could increase its customer base, improve its earnings and at the same time satisfy the quest for loans with a low interest rate.

Having followed the suggestion the bank's management team now wants to extend the activities to the business communities of the neighboring regions. If doing so, it will face competition from the local banks already operating there. Can the bank extend its particular credit policy, and if not, why?

3. A country has a number of firms doing business in the service sector, financed largely by bank loans. The revenues of these firms are all of comparable size, but they are subject to risk which may differ considerably from one firm to another. The banking sector is competitive, so that loan rates are rather low, and it is argued that the low rates keep unsound business alive, and that this could be avoided if the firms were obliged to finance a larger part of the business themselves. Give an assessment of these arguments based on banking theory.

The owners of the firms are troubled by having to provide a larger share of the capital themselves, and they contemplate creating an association to take care of their business with the banks. Explain how this can be useful for them.