Credit and Banking Exam 2017

Question 1: Information Sharing

- Which type of information sharing leads to a strictly decrease in loan rates over time. Assume that the p is exogenous. How are the profits of the bank changing over time? How large should p be? And if a bank is constrained in period 1 (i.e. he cannot make losses), does this affect your result? Explain why and why not.
- Assume that the level of effort is given endogenous (i.e the entrepreneur can choose vis level of effort himself). Will the level of effort be underperforming or overperforming compared to the first best case? Why? Explain with a graph and interpret your findings.

Question 2: Asymmetric Information

- Construct the graph (interest rate/collateral) with the indifference curves and isoprofit curves and show where the separating equilibrium is.
- Explain why there is a separating equilibrium. When you have a regression interest rate = beta*collateral + control variables + error term. What would be the sign of beta in this regression (assuming that you have a separating equilibrium)
- When does the separating equilibrium not hold? Why?

Question 3 liquidity risk in the banking sector

- Explain the statement that banks offer liquidity both on the asset and liability side.
- Are banks that offer both liquidity on the asset side and the liability side more risky? How would you study this?
- Explain the main findings in the literature.

Question 4: Macro-prudential regulations

- Question on guest lecture: what are the main impacts of the low interest yield environment?
- Explain the time and cross-sectional dimensions on which macro-prudential policies can have an impact. And explain how you can study what their impact will be.
- Explain the main findings in the literature