

UNIVERSITY OF CHICAGO
Graduate School of Business

Business 336-81
Financial Markets and Institutions

D. W. Diamond
Winter 1984

MIDTERM EXAMINATION

This is a closed book exam. You have a total of 70 minutes to work.
Turn in this exam paper, as well as your blue book.

Name Hidaya Okabe

There are a total of 75 points on this exam.

State whether each of the following four statements are true, false, or uncertain, and briefly explain why. 1-4 are worth 10 points each.

1. Liquidity ratios are generally lower for small retail banks as compared to large wholesale banks.
2. Demand deposits and CD's have a very different impact on a bank's interest rate exposure because demand deposits are free funds, whereas CD's interest rates adjust to the market.
3. Reserve requirements no longer limit the scale of the financial intermediary sector. Two reasons for this is the ability of banks to enter into RP's, and the existence of money market funds which are not subject to reserve requirements.
4. A bank with government deposit insurance will rely more on asset management of liquidity (relative to liability management) than a bank without deposit insurance.

In one blue book page (or less, if possible) explain the workings and significance of the following three items. 5-7 are worth 5 points each.

5. LIBOR.
6. The Euro-Placement Market.
7. Optimal Compensating Balance Agreements.
8. (20 Points)

How do reserve requirements influence the cost and methods of a bank's provision of liquidity services to its AAA customers? Explain, using examples from U.S. banking markets over the last decade.