FACULTY OF BUSINESS AND LAWACADEMIC YEAR 2019/20Assessment InstructionsAssessment DetailsModule Code: UMEDFT-30-3Module Title: Contemporary Issues in Banking and FinanceAssessment Component: A Submission will be made by:using a normal Blackboard submission portal in the Assignments folder of this module on Blackboard. Assessment opens:09.30 10 August 2020 BSTDeadline/Submission closes: 09.30 12 August 2020 BSTAssessment Weighting: 50% per cent of total module markN.B. all times are UK Time (British Summer Time)Important Information - Referencing and Assessment OffencesAs is usual for an exam, for this assessment you are not expected to include full referencing, but are encouraged to cite the sources of key theories, models, cases, legislation etc. Text-matching software (e.g. SafeAssign) is used to check every submission against other submissions made at the same time, previous submissions to UWE and other universities, and internet sources. When submitting your work, you will be required to confirm that the work is your own.It is an assessment offence to copy work from any source, including your own previous assessments, and present it as your own work for this assessment, or to provide your own workto others. It is an assessment offence to work with others on the assessment in any way.Paraphrasing by changing individual words but keeping essentially the same sentences or structures from other sources is not acceptable and will be detected by text-matching software:please write in your own words and style to convey your own learning. UWE’s Assessment Offences Policy outlines potential offences including plagiarism, collusion, self-plagiarism and sharing of assessment submissions, and it is your responsibility to understand this policy and avoid potential offences. Details of what constitutes plagiarism and how to avoid it can be found on UWE’s Study Skill’s plagiarism pages.1

FormattingPlease use the following file format(s): Word, RTF, ODF, PDF.We cannot ensure that other formats are compatible with markers’ software and cannot guarantee to mark incorrect formats.Please include the module name and number and your student number (not your name).Please indicate clearly which questions you are answering.Instructions for submission You must submit your assignment before the stated deadline by electronic submission throughBlackboard.•It is your responsibility to submit coursework in a format stipulated aboveYour marks will be affected if your tutor cannot open or properly view your submission.•You can submit as many times as you like up to end of the submission period; only the lastsuccessful submission will be marked.•Do not leave submission to the very last minute. Always allow time in case of technical issues.•The date and time of your submission is taken from the Blackboard server and is recorded when your submission is complete, not when you click Submit. •It is essential that you check that you have submitted the correct file(s), and that each complete file was received. Submission receipts are accessed from the Coursework tab.There is no late submission permitted on this timed assessment.Further guidance and support before and during assessmentTechnical supportSee UWE’s IT support pages for support with software for home and immediate technical issues. Note that a limited service may be available due to ongoing UK restrictions, and therefore please report issues as soon as possible. If it is not possible to resolve them, personal circumstances will be offered.2

Instructions•Candidates must answer ONEquestion from Section A AND TWO questions from Section B•The marks available for each answer are shown below the questions.•The word limit is 3000 words.•As is usual for an exam, for this assessment you are not expected to include full referencing,but are encouraged to cite the sources of key theories, models, case studies, statutes etc. •Multiple submissions can be made to the portal, but only the final one will be accepted. Please save your work frequently. •This is an individual assessment: do not copy and paste work from any other source. Text-matching software will be used on all submissions – more detail provided below. •There is no +/- 10% on word count and anything after the maximum word count will not be marked, in line with UWE’s Word Count Policy.SECTION A1. (a) Can the central bank control the quantity of money in the economic system?(9 marks)(b) Explain the process by which the central bank influences money market rates under an inflation targeting regime. (9 marks) (c) How do central banks use open market operations to affect macroeconomic variables such as output and employment?(8 marks)(d) How did monetary policy change in the US after the 2008 financial crisis?(8 marks)2. (a) Describe the three equation New Consensus model of monetary macroeconomics.(16 marks)(b) Explain the main advantages and shortcomings of this model. (6 marks)(c) The coronavirus will lead to a severe economic shock in many countries. How should central banks respond?(12 marks)3

3. A bank offers savings accounts with a rate of interest r1, of 1.5% per annum, on balances heldfor one year, and a rate r2, of 3% per annum, compounded annually, for balances held for two years.(a) If you deposit £1500 today, what will you receive:i. after one year?(2 marks)ii. after two years?(2 marks)(b) How much do you need to deposit today to receive £1500, i. after one year?(3 marks)ii. after two years?(3 marks)(c) Consider a riskless three-year bond that pays coupons of C at the end of each year and repays par value of F. Write down a formula for the price this bond should trade at in an efficient market.(4 marks)(d) If you face a choice between the bank deposits listed above, and a bond that pays 4% of face value annually, how much should you pay for:i. A bond that matures in one year with par value of £1500?(3 marks)ii. A bond that matures in two years with par value of £1500?(3 marks)(e) Explain how expectations of future market conditions influence the yield curve on debt instruments. (9 marks)(f) What could cause an inverted yield curve for government debt? (5 marks)4

SECTION B4. (a) A firm has 3,000,000 shares outstanding and net income of £800 million. In the coming year, you expect the firm to pay out half its net income as dividends. You expect to be able to sell a share in the company for £1200 at the end of the year.(i) If you require a return on equity of 15%, how much will you be willing to pay for a share in the company?(5 marks)(ii) Now assume that you expect to hold this stock for the rest of your life and that you expect the dividends paid by the stock to grow at a rate of 5% every year. (You continue to require a return on equity of 15%.) How much will you be willing to pay for a share in the company?(5 marks)(b) Under what conditions would we expect the prices you have calculated to be the actual market prices? (11 marks)(c) How does Prospect Theory provide an explanation for prices deviating from ‘efficient market’ prices? Explain the theory clearly and be sure to address loss aversion, the certainty effect, and the possibility effect.(12 marks)5. (a) Suppose that in 2020 the expected inflows of firm X that produces investment goods are £200,000, X’s short-term debt is £120,000 and will accrue interest over the year at 5%, X has £1,200,000 in long-term debt bearing an interest rate of 6% per annum. No long-term debt matures this year. All the long-term debt matures in 2023. For this year, 2020, what is the finance regime of this firm according to Minsky’s classifications? Explain your answer clearly.(8 marks)(b) Explain the three finance regimes identified by Minsky, and explain how Minsky usedthese regimes in his description of financial instability.(12 marks)(c) Compare and contrast the Financial Instability Hypothesis and the Efficient Markets Hypothesis. (13 marks) 5