**REVISION QUESTIONS**

**CHAPTER 1 INTRODUCTION**

1. Discuss the difference between primary and secondary markets.

2. Outline the main differences between bonds and equity.

3. Can governments borrow indefinitely? Are government bonds different to corporate bonds?

4. How do firms increase their gearing? Is there a level of gearing that is considered excessive?

**CHAPTER 2 BANKING BACKGROUND**

1 Analyze the role of government ownership in the banking sector of Europe and the US since the banking crisis.

2 Examine the role of liquidity in banking. How is liquidity linked to capital/solvency?

3 Discuss the main differences between Basel I, II and the proposed Basel III.

4 Outline the ways in which banks can increase their capital strength.

5 Consider the main motives for establishing a European Banking Union.

**CHAPTER 3 ROLE OF THE CENTRAL BANK**

1. Analyze the main functions of central banks.

2. Discuss whether it matters if a central bank is independent or not. Can a central bank ever be truly independent from political influence if the governor is always appointed by the government?

3. Examine the lender of last resort function of the central bank, and explain the role of moral hazard.

4. Discuss whether monetary policy can be effective when interest rates are close to zero, making brief reference to the role of quantitative easing (QE).

**CHAPTER 4 COMMERCIAL BANKING**

1. Analyze the main payment services offered by banks and highlight the recent trends in retail payments.

2. Discuss the key challenges faced by retail banks. Which challenges are considered the most important and do these vary for banks in different parts of the world?

3. Examine how new technology impacts on retail banking activity. Why does internet bank penetration vary so much in Europe?

4. What are the main differences between committed and uncommitted credit lines?

**CHAPTER 5 INVESTMENT BANKING**

1 Outline the main roles played by investment banks. Explain how their activities may complement traditional commercial banking.

2 Analyze the pros and cons of universal banking.

3 Discuss how the 2010 US Dodd-Frank Act and the recommendations of the UK Vickers Report will limit certain areas of investment banking activity.

4 Examine the key differences between investment and commercial banking. Explain why investment banking is considered inherently more risky.

**CHAPTER 6 REGULATION**

1. Analyze the role of information asymmetries in creating the need to regulate financial firms, making specific reference to moral hazard and adverse selection.

2. What are SIFIs? How should they be regulated?

3. Outline the major features of the US Dodd-Frank Act 2010. How is it expected to impact US bank behavior/performance?

4. Briefly explain why the ECB undertook its Comprehensive Assessment on bank asset quality and capital strength.

**CHAPTER 7 MONEY & BOND MARKETS**

1 Analyze the main types of bonds and their different features. Highlight the main differences between corporate and government bonds.

2 Discuss the main differences between bonds and floating rate notes. When would a company issue floating rate notes?

3 Examine the role of the euromarkets and discuss the main debt instruments linked to these markets.

4 Outline the role of credit rating industries in bond markets. When would rating agencies upgrade a bond issue?

**CHAPTER 8 EQUITY MARKETS**

1. Outline the major market indices and briefly explain how they are constructed. Discuss the reasons why their coverage and construction vary.
2. What is the difference between exchange traded and OTC transactions? If the latter are cheaper, why don’t small investors trade OTC?
3. Why does stock borrowing and lending occur? In your answer, provide a general explanation of short selling.
4. Analyze the main features of an order-driven system.

**CHAPTER 9 HEDGE FUNDS & PRIVATE EQUITY**

1. Analyze the main characteristics of hedge funds and explain their role in modern financial markets.
2. Examine the key differences between hedge funds and private equity firms. Why are they becoming increasingly similar?
3. Outline the role of leverage for both hedge funds and private equity firms.
4. Discuss the recent regulatory initiatives aimed at regulating the hedge fund sector.

**CHAPTER 10 FINANCIAL CRISIS**

1. Analyse the main causes of the 2008 global financial crisis. How much was lending to the property sector to blame for the crisis?
2. Discuss the role played by rating agencies in the securitization business. What are the potential conflicts of interest for rating agencies in this business area?
3. Analyze the US regulatory response to the crisis. How will the 2010 Dodd-Frank Act impact on future bank behavior?
4. Examine the role of too big to fail (TBTF) in banking.

**CHAPTER 11 FOREIGN EXCHANGE**

1. Briefly explain the main theories relating to exchange rate determination.
2. Can PPP be used to forecast future exchange rates? What are the limitations of PPP?
3. Examine the main features of spot and forward rates. Why are forward products used more widely than spot contracts?
4. Why has London become the main foreign exchange market?

**CHAPTER 12 EUROPE & THE EUROZONE**

1. Compare the pros and cons of the EU. Examine the impact it has had on European financial markets and institutions.
2. Examine the main features of the Eurozone sovereign debt crisis. Will it lead to the break-up of the monetary union?
3. Discuss the major legislation introduced to improve the competitiveness of European financial systems. Have these reforms had an impact on UK financial firms?
4. Analyze the main features of EU banking systems and highlight recent trends.

**CHAPTER 13 TRADED OPTIONS**

1. Outline the main differences between exchange traded and OTC options products. Why is the OTC market much larger than the exchange traded market?
2. Analyze three option products of your choice, highlighting their main features and how they maybe be used for risk management purposes.
3. Explain straddle trading strategies.
4. Examine the terms ‘in the money’, ‘at the money’ and ‘out of the money’.

**CHAPTER 14 FINANCIAL FUTURES**

1. Outline the key differences between forwards and futures. Which type of instrument is the most important globally?
2. Explain how investors can hedge using forward contracts.
3. Examine the advantages of open outcry markets. Are their days numbered?
4. Outline the main features of bond and currency futures.

**CHAPTER 15 OTHER DERIVATIVE PRODUCTS**

1. Explain the main characteristics of a forward rate agreement (FRA).
2. Analyse the features of the CDS market. Explain how CDS can be used to reduce credit risk exposure.
3. What are caps, collars and floors? Provide practical examples of these.
4. Outline the key features of swaptions. What are they used for?

CHAPTER 16 EMERGING GROWTH-LEADING ECONOMIES (EAGLES)

1. Highlight the key features of the EAGLEs. Which countries are expected to grow the fastest and why?
2. Outline the prospects for derivatives markets in two EAGLEs of your choice.
3. Examine how the economic development of the EAGLEs impacts on the US and Europe.
4. Analyse the main differences between the financial systems of China and India. Which one has the greatest growth potential over the next decade?

**CHAPTER 17 TRENDS IN THE GLOBAL FINANCIAL MARKETS**

1. Explain how ethical and environmental factors impact on banks and financial firms.
2. Outline the pros and cons of an investment strategy that focuses on high dividend stocks, giving examples of specific high dividend stock.
3. Analyse the price trends of three precious metals and three energy products (such as oil, gas, coal) over the past five years. Which offer the best investment opportunities?
4. Critically appraise the regulatory response to the 2007/08 financial crisis. How effective do you think the regulations will be in preventing another crisis?