

B.A. EXAMINATION, 2025
ECONOMICS
3rd Year, 2nd Semester
Subject Code : ECO/B/DSE 6.1/1
MONEY & FINANCIAL MARKETS

Time : Two Hours

Full Marks : 30

Answer any two of the following questions:

15×2=30

1. (a) Clearly explain the effects of asymmetric information in the credit market and in the insurance market.
 - (b) What are the alternative sources of short-term funds for a bank intermediary?
 - (c) How will the NAV of a mutual fund unit be affected by higher market value of shares the mutual fund has invested in, a higher salary of the fund manager, a lower dividend payment by some companies whose shares are held in the portfolio of the mutual fund? Explain your answer.
- [8+4+3]
2. (a) Consider a bank with h number of depositors, each with s amount of savings. There are k producers each with a fund requirement $B > s$. There are two periods. The producers invest B at the beginning of the first period and get a return R at the end of the second period. Bank incurs a cost β to safeguard the deposits, which it takes as a fee from the depositors. The bank also incurs a monitoring cost m per borrower to monitor the borrowers, which is taken from the borrower. The bank receives an interest rate r from borrowers. 40% of the depositors will withdraw their deposits at the end of the first period & the rest will withdraw their money at the end of the second period. If the banking sector is competitive, what will be the interest rate that will be paid on the deposits, if the bank lends 60% of the deposits for two periods? Explain how in the presence of uncertainty and updating of information this process of banking can give rise to a bank run.
 - (b) Using a suitable model, clearly explain when an insuree will take full coverage and when she will take a partial coverage.
- [6+4+5]

3. (a) Write a short note on any two of the following : [4+4=8]
- i. BSE SENSEX
 - ii. Market for commercial papers
 - iii. Asset transformation function of the banks
- (b) Suppose a company goes bankrupt. The total liquidation value of the company's assets will be Rs. 90,000. The total loan liability of the company is Rs 1,30,000 of which Rs 30,000 is mortgaged loan. The current liquidation value of the mortgaged asset is Rs. 25,000. Also loans worth Rs 45,000 carry a seniority clause. There are preferential shareholders, who have invested Rs. 27,000 in the company. The ordinary shareholders have invested Rs 60,000. Explain how the liquidation value will be distributed among various stake holders. How will the result change if the liquidation value of the firm is Rs. 1,45,000 ? 7
