DATE: 28-06-2019

ST. JOSEPH'S COLLEGE (AUTONOMOUS), BANGALORE-27
M.A. ECONOMICS – III SEMESTER
Special Supplementary Examination, JUNE 2019

EC 9518: FINANCIAL ECONOMICS

Time-2 ½ hrs **Max Marks-70**

Supplementary candidates only.
Attach the question paper with the answer booklet

This paper contains ONE printed page and THREE parts

SPECIAL SUPPLI-JUNE-2019

PART A Answer any FIVE of the following **2 X5=10**

1. What is St. Petersburg paradox?
2. State Fisher separation theorem.
3. Explain the difference between zero coupon bonds and coupon bonds.
4. What is the difference between systematic risk and unsystematic risk?
5. Define leverage.
6. What are commercial papers?
7. Differentiate between banks and non banking financial intermediaries.

PART B Answer any THREE of the following **10 X3 = 30**

8. State the major criticisms of expected utility theory. Discuss how prospect theory addresses it?
9. Describe the main features of options contracts. Show how to price a standard European call option using a single-period binomial model.
10. Discuss the credit creation process of commercial banks. What factors do you think affects the credit creation process?
11. Discuss on Treasury bill market of India.
12. Write a short note on Basel norms.

PART C Answer any TWO of the following **15 X2 = 30**

13. State the assumptions and explain the expected utility theorem.
14. Detail the assumptions of the capital asset pricing model (CAPM) and provide a derivation of the CAPM equation. Support your derivation with graphical evidence.
15. What is agency cost? Using an appropriate theory, show that Modigliani Miller theorem does not hold in presence of agency cost.