Banking and the Management of Financial Institutions
ECON 4673
Dr. Keen

Problems

1. Name the five types of assets and the three types of liabilities of a bank.

2. How would the following bank balance sheet (in millions of $) change if checkable deposits declined by $50 million?

Assets		Liabilities/Equity	
Required reserves	30	Checkable deposits	300
Excess reserves	70	Nontransaction deposits	200
Business loans	500	Bank equity	100

3. Name and briefly explain the four primary concerns of a bank manager.

4. What are the four ways a bank can immediately raise reserves.

5. Why has the development of overnight loan markets made it more likely that banks will hold fewer excess reserves?

6. If a bank is falling short of meeting its capital (equity) requirements by $1 million, what three things can it do to rectify the situation?

7. Would you be more willing to lend to a friend if she had put all of her life savings into her business than you would be if she had not done so? Why?

8. What types of restrictive covenants can be included in debt contracts?

9. If the president of a bank told you that the bank was so well run that it has never had to call in loans, sell securities, or borrow as a result of a deposit outflow, would you be willing to buy stock in that bank? Why or why not?

10. What is a loan commitment, and how is it beneficial to the firms receiving it and the banks providing it?

11. Why has noninterest income been growing as a source of bank operating income?

12. NewBank started its first day of operations with $6 million in capital. A total of $100 million in checkable deposits is received. The bank then makes a $25 million commercial loan and lends another $25 million in mortgage loans. If the required reserves ratio is 8%, what does the bank's balance sheet look like?

13. Sooner Mall Bank reported a return on equity (ROE) of 15% and a return on assets (ROA) of 1%. What is this bank's equity-to-assets ratio? Is this bank well capitalized?

14. Suppose you are the manager of a bank whose \$100 billion of assets have an average duration of four years and whose \$90 billion of liabilities have an average duration of six years. Conduct a duration analysis for the bank, and show what will happen to the net worth of the bank if interest rates rise by 2 percentage points.

15. Suppose you are the manager of a bank that has \$15 million of fixed-rate assets, \$30 million of rate-sensitive assets, \$25 million of fixed-rate liabilities, and \$20 million of rate-sensitive liabilities. Conduct a gap analysis for the bank, and show what will happen to bank profits if interest rates rise by 5 percentage points.