

FINA351 The New Zealand Financial System

Assignment 4

20% of final mark for the course.

Due 4pm Friday 21 May

3 pages expected length (excluding references)

- 1) Capital adequacy:** How does capital protect a bank from failure? Why do banks hold capital well in excess of the minimum regulatory requirements? (25 marks)

- 2) Bank resolution:** What is the meaning of bail-in and bail-out? What are the pros and cons of using bail-in versus bail-out for resolving a failing bank? (25 marks)

- 3) Monetary policy:** What is the purpose of Monetary policy? What are the main transmission channels by which monetary policy achieves its purpose? (25 marks)

- 4) Downward trend in interest rates:** How does the Reserve Bank influence interest rates? What other factors have contributed to the downward trend in interest rates since the GFC? (25 marks)

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10 May 2021