

International Islamic University Chittagong
Department of Economics & Banking
Mid Term Examination: Spring-2023
Program: MSS in Economics and Banking

Course Code:BNKG-5204

Course Title: Monetary Economics and Banking

Time: 2 Hours

Full Marks: 30

Answer all three (3) questions. All parts of a question must be answered sequentially. Figures in the right margin indicate full marks.

Questions	Marks	CLOs & PLOs	Cognitive Learning
1.a Distinguish between chartered bank and building societies. Or Distinguish between foreign bonds and Eurobond.	3	CO1 PO1	Understanding
1.b 'Money' is a much narrower concept than 'credit'. -Evaluate this statement. Or "Information is at the center of all financial transactions and contracts"- Evaluate this statement	3		Evaluating
1.c Explain the mandatory characteristics of commodity money.	4		Remembering
2.a Exemplify unconventional monetary policy.	2	CO2 PO5	Creating
2.b Explain different forms of lender of last resort functions of central bank.	4		Understanding
2.c Evaluate the implication of money growth rate targeting regime of central bank regarding monetary policy implementation. Or Evaluate the independence of Bangladesh bank while conducting monetary policy.	4		Evaluating
3 Analyze the following case: On Friday, March 10, 2023, Silicon Valley Bank (SVB) failed after a bank run, marking the third-largest bank failure in United States history and the largest since the 2007–2008 financial crisis. Started as a California bank in 1983, SVB expanded rapidly over the last one decade. During the coronavirus pandemic, it gained popularity among tech-based startups. Like other lenders, SVB invested the majority of the deposits. It had invested a large amount of deposits in long-term US treasury bonds, considered safe investment tools. But the bank began coming under pressure when the Federal Reserve, the central bank of the US, increased its key interest rates repeatedly to tackle higher inflation. There is a reverse relationship between the price of bonds and the key interest rates of the Fed. If the key interest rates go up, bond prices decline. So, when the Fed started to hike rates rapidly, SVB's bond portfolio started to lose significant value, according to the Guardian. Had the lender held the bonds until their maturity, which is 30 years, it would have	10	CO2 PO5	Analyzing

been able to get back the capital with interest. However, as economic conditions soured over the last year, with tech companies particularly affected, many of the bank's customers started drawing on their deposits. But SVB did not have adequate cash to repay the depositors as it invested those like other banks do, said the Guardian article. So, it was forced to sell bonds at losses to tackle the situation, spooking the confidence of investors and depositors. The situation worsened on March 8 when the lender announced to raise \$1.75 billion from the capital market. Clients reckoned that the lender was in deep financial trouble, bringing about an ultimate bank run.

Answer following questions based on above case:

- (i) Analyze the role of central bank monetary policy on collapse of SVB.
- (ii) What is Bank Run? Analyze the role financial stability to control bank run.