Study Questions No. 3 (February 4, 2009)
Economics 130
Winter 2009

These questions are designed to help you in your understanding of the material covered in class and in the textbook.

1. Chp. 8; pp. 216-217: question 1, 2, 3, 4, 5, 6, 7, 8, 10, 11, 12, 15
2. Chp. 9, pp. 245-246, questions: 1, 4, 6, 7, 8, 9, 10, 13, 14, 15
3. Chp. 10, p. 276, questions: 2, 4, 11, 12, 14, 15
4. Chp. 11, pp. 306-307, questions: 3, 4, 5, 6, 7, 9, 12, 13, 14
5. What are the eight basic factors about financial structure throughout the world?
6. How does the sub-prime mortgage crisis call attention to the moral hazard problem and conflicts of interest?
7. What is the Sarbannes-Oxley Act of 2002? What scandal was this legislation responding to? What does it attempt to accomplish? Why didn't it stop the sub-prime mortgage crisis?
8. What are restrictive covenants in debt contracts? What basic problem in finance do restrictive covenants attempt to address?
9. Key terms : Regulation Q, Glass-Steagall Act, McFadden Act,, dual banking system, securitization, disintermediation
10. How has financial innovation changed the nature of the banking industry?
11. Why did inflation in the 1970s make banks uncompetitive with money market mutual funds (MMMF)? What was the response?
12. What is the difference between "duration" analysis and "gap" analysis and what issues on bank balance sheets are they trying to analysis?
13. Bank consolidation has led to dramatically fewer banks in the United States in the past twenty-five years. Is this lowering competition in banking?
14. What are key elements in bank's asset management? Liability management? Liquidity management?
15. Key terms: Basel Accord, leverage ratio, regulatory arbitrage, regulatory forbearance, off-balance-sheet activities, Board of Governors of the Federal Reserve System, Federal Reserve Banks, FOMC, goal independence, instrument independence, excess reserves, open market sale, required reserve ratio, multiple deposit creation, non-borrowed monetary base
16. Why is Japan's banking crisis an example of "regulatory forbearance"? How did Japan's banking crisis begin? Why did it continue so long?
17. Why did the Bank of England nationalize Northern Rock? Does this set up a bad precedent? Why or why not?
18. What the key factors explaining the U.S. sub-prime crisis? Analyze in terms of the main concepts learned in this class?