AN\textbf{swers AT END}

\textbf{ECONOMICS 353} \hspace{1cm} L. Tesfatsion/Spring Semester 2011
\textbf{EXERCISE 2: Eight Questions (8 Pts Total)} \hspace{1cm} DUE: Tues., January 25, 12:40pm

**PLEASE NOTE: EXERCISES ARE DUE AT THE BEGINNING OF CLASS ON THE DUE DATE. LATE EXERCISES WILL NOT BE ACCEPTED AFTER DISCUSSION OF ANSWERS HAS BEGUN – NO EXCEPTIONS**

**EXERCISE INSTRUCTIONS:**

- (1) Please \textbf{fill in your name and student ID number} on Side 1 of your bubble sheet and write \textbf{353 Exercise 2} in the top margin of Side 1.

- (2) Use a number 2 pencil to \textbf{mark your answers} on Side 1 of the bubble sheet to the multiple-choice questions Q1 through Q8 below.

- (3) Each question is worth 1 point. Questions Q1 through Q5 can be answered using required course materials for Mishkin Chapter 2:Part A. Questions Q5 through Q8 can be answered using the accompanying links to online readings.

\textbf{Q1 (1 point).} By definition, a FINANCIAL ASSET is \underline{______}.

A. an asset denominated in money units.
B. a liability.
C. a claim against real assets.
D. any asset owned by a financial institution.

\textbf{Q2 (1 Point).} One of the six essential functions of FINANCIAL MARKETS is to \underline{______}.

A. facilitate the transfer of funds (purchasing power) from savers who have spent less than their income to investors or consumers who have spending needs that exceed their income.
B. permit corporations to obtain mark-to-market valuations for their firms.
C. permit the decentralization of financial information across many investors.
D. provide rankings of financial instruments as guides for investors.
Q3 (1 Point). SECURITIES are _____ for the individual or agency that buys them and _____ for the individual or agency that newly issues them.

A. liabilities; assets
B. assets; liabilities
C. illiquid assets; liquid assets
D. call options; put options

Q4 (1 Point). A major function of FINANCIAL INTERMEDIARIES that is NOT also performed by dealers is _____

A. “making the market” by posting both purchase and sale prices for financial assets
B. matching buyers of financial assets with sellers of financial assets
C. financial asset transformation
D. the holding of inventories of securities for future resale

Q5 (1 Point). Examples of OVER-THE-COUNTER MARKETS include _____.

A. the foreign exchange market
B. the U.S. government bond market
C. the New York Stock Exchange
D. all of the above.
E. only A and B.

SEE THE FOLLOWING PAGE FOR Q6-Q8.
Q6-Q8: Questions on investment banking in relation to the Financial Crisis of 2007-2009] Please use the following required and recommended online readings to answer Q6-Q8 below.


Q6 (1 Point). According to Ref.[1] and required course materials related to Mishkin Chapter 2:Part A, TRADITIONAL investment banking activities in the U.S. have included ____.

A. underwriting of initial public offerings (IPOs) for raising new equity capital
B. assistance with the sales of IPOs to the public
C. advising services, e.g., advice regarding mergers and acquisitions (M&A) and the timing/form of IPOs
D. all of the above
E. only B and C

Q7 (1 Point). According to Ref.[2], the financial crisis led to the following major changes for U.S. investment banks: the collapse of ____; the acquisition of Merrill Lynch by Bank of America; and a change in status (to bank holding companies) for Goldman Sachs and Morgan Stanley.

A. Wells Fargo Bank and Wachovia Bank
B. Bear Stearns and Lehman Brothers
C. Barclays Bank and ING Bank
D. Charles Schwab and TD Ameritrade

Q8 (1 Point). According to Ref.[1], in recent years profit-seeking investment banks have increasingly turned their attention away from traditional investment banking activities and more towards activities such as ____.

A. virtual (online) banking with offices distributed worldwide.
B. residential and commercial lending funded by deposit accounts.
C. internal and client-driven securities trading, and wealth management for high-net-worth individuals.
D. retail banking services emphasizing checking accounts, savings accounts, and mutual funds.

Multiple Choice Answers: Q1-C, Q2-A, Q3-B, Q4-C, Q5-E, Q6-D, Q7-B, Q8-C

3