Econ 353: Money, Banking and Financial Markets
Problem Set 5

1. In the 1970s and 80s, as a result of restrictive banking regulations – restrictions on branching, the United States
A) has too few banks compared to other industrialized countries.
B) has banks that are quite large relative to those in other countries.
C) has too many small banks compared to other industrialized countries.
D) has a few dominant banks that hold most of the assets in the industry.

2. Which of the following is not a bank’s response to restrictions on branching?
A) Competitions among banks are completely quashed.
B) Bank holding companies purchased banks outside state
C) Bank holding companies engage in a wider scope of activities than a single bank could
D) Banks use ATM to serve their customers.

3. Advantages result from bank consolidation does not include _________
A) economics of scale
B) diversification
C) comparative advantage in serving small business
D) economics of scope

4. Because of asymmetric information, the failure of one bank can lead to runs on other banks. This is the
A) too-big-to-fail effect.
B) moral hazard problem.
C) adverse selection problem.
D) contagion effect.

5. The existence of deposit insurance can increase the likelihood that depositors will need deposit protection, as banks with deposit insurance
A) are likely to take on greater risks than they otherwise would.
B) are likely to be too conservative, reducing the probability of turning a profit.
C) are likely to regard deposits as an unattractive source of funds due to depositors' demands for safety.
D) are placed at a competitive disadvantage in acquiring funds.

6. Which of the following is a regulation on bank’s asset holding?
A) Regulators pay on-site visits to banks to monitor banks
B) New banks need to have their proposals approved before they can operate
C) Banks are not allowed to hold stock but are recommended to diversify use of funds
D) Banks are evaluated according to risk management rating and interest-rate risk management standards.
7. Truth-in lending is __________
   A) a regulation that require banks to adhere to standard accounting principles
   B) a regulation that belongs to the catalogue of ‘assessment of risk management’
   C) a regulation that prohibit discrimination in lending
   D) a regulation that requires banks to provide consumers with full information about cost of borrowing including interest rate and finance charges on the loan.

8. When regulators chose to allow insolvent S&Ls to continue to operate rather than to close them, they were pursuing a policy of ________.
   A) regulatory forbearance
   B) regulatory kindness
   C) ostrich reasoning
   D) ignorance reasoning

9. The S&L Crisis can be analyzed as a principal-agent problem. The agents in this case, the ________, did not have the same incentive to minimize cost to the economy as the principals, the ________.
   A) politicians/regulators; taxpayers
   B) taxpayers; politician/regulators
   C) taxpayers; bank managers
   D) bank managers; politicians/regulators

10. The Federal Reserve Bank of New York plays a special role in the Federal Reserve System because of all of the following reason except ________
    A) it houses the open market desk.
    B) The president from which Federal Reserve Bank always has a vote in the Federal
    C) The New York district contains the largest banks in the country
    D) The New York Fed belongs to the Bank for International Settlements, so its president and the chairman of the Board of Governors represent the U.S. at the monthly meetings of the world's central banks
    E) It is the location of the headquarter of the Board of Governors.

11. Members of Congress are able to influence monetary policy, albeit indirectly, through their ability to
    A) withhold appropriations from the Board of Governors.
    B) withhold appropriations from the Federal Open Market Committee.
    C) propose legislation that would force the Fed to submit budget requests to Congress, as must other government agencies.
    D) instruct the General Accounting Office to audit the foreign exchange market functions of the Federal Reserve.