Econ 520 (Spring 2007)

Answers to Problems for Chapters 10-13

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CHAPTER 10

2. Short Answer/Essay Problems

(1) Since banks are smaller with branching regulations, economies of scale are not exploited. Transactions and information costs are not reduced as much as larger banks would be able to. Branching regulations lead to less competition and thus less benefits from competition. The branching regulations tend to cause banks to specialize in local firms and thus banks to diversify less.

(2) The finding should be interpreted evidence against branching regulations because it is an empirical evidence that branching regulations are causing banks to diversify less.

CHAPTER 11

2. Short Answer/Essay Problems

(1) Because of deposit insurance provided by the FSLIC, depositors did not monitor S&Ls and S&Ls had moral hazard incentives to invest in risky assets.

(2) False. Because depositors are insured, they do not monitor their banks closely and they do not withdraw deposits when their banks take on great risks. This gives banks more incentives to take on risks.

CHAPTER 12

1. Multiple Choice Problems

1-C; 2-B; 3-D

CHAPTER 13

1. Multiple Choice Problems

1-B;2-B; 3-A; 4-B; 5-A; 6-D

2. Short Answer/Essay Problems

(1) On March 1, 1991, you can borrow \$400 and buy one ounce of gold for \$400 in the spot market and sell the gold in the futures market for March 1, 1992 delivery. On March 1, 1992, you deliver the gold and receive \$480 and pays back \$400 that you borrowed with \$40 interest.