

****IMPORTANT REMINDER: LATE ASSIGNMENTS WILL NOT BE ACCEPTED
– NO EXCEPTIONS****

ANSWER OUTLINE

EXERCISE INSTRUCTIONS:

- (1) Please **fill in your name and student ID number** on Side 1 of your bubble sheet and write **353 Exercise 2** in the top margin of Side 1.
- (2) Use a number 2 pencil to **mark your answers** on Side 1 of the bubble sheet to the first five questions Q1 through Q5, below, which are in multiple choice format.
- (3) The sixth question Q6 is a Web Exercise that asks you to find and report data relating to education loans for students. Please put your **name and student ID number** at the top of your print-out sheet for Q6 along with **353 Exercise 2** and **separately** hand in this print-out sheet for Q6 in addition to your answer bubble sheet for questions Q1 through Q5.
- (4) Each question Q1 through Q5 is worth 1 point, and Q6 is worth 3 points.

Q1 (1 point). Examples of REAL assets include

- A. bridges.
- B. human capital.
- C. preferred stock shares.
- D. all of the above.
- E. only A and B above.

Q2 (1 Point). A key attribute SHARED by brokers and dealers is:

- A. brokers and dealers both hold inventories of the assets they trade.
- B. brokers and dealers both earn profits through commissions.
- C. brokers and dealers both engage in asset transformation.
- D. none of the above.

Q3 (1 Point). By definition, key activities of INVESTMENT BANKS include:

- A. taking in deposits and making loans.
- B. offering investment (stock pick) advice to stock traders.
- C C. underwriting of initial public offerings of corporate bonds.
- D. investing in portfolios of assets to increase returns to shareholders.

Q4 (1 Point). By definition, key attributes of OVER-THE-COUNTER markets include:

- A. a centralized exchange (“counter”) where traders meet to trade.
- B B. a geographic dispersement of dealers who make the market by posting bid/ask prices.
- C. a geographic dispersement of brokers who match offers to buy with offers to sell.
- D. an exclusive focus on trades in domestically issued bonds or stocks.
- E. an exclusive focus on trades backed by government guarantees.

Q5 (1 Point). A LOAN CONTRACT for acquiring funds that is issued by United Airlines and accepted (held) by Third-Rate National Bank is ____ for Third-Rate National Bank and ____ for United Airlines.

- A. a liability; an asset
- B B. an asset; a liability
- C. a real asset; a financial asset
- D. a financial asset; a real asset

**SEE THE FOLLOWING PAGE FOR
Q6: WEB EXERCISE**

Q6: Web Exercise (3 Points Total). This Web Exercise asks you to locate and report information on the Web related to *education loans*, a form of financial aid that must be repaid with interest (in contrast, e.g., to scholarships). Each part below (A-C) is worth 1 point.

Please be sure to provide the title and URL address for any website you use to obtain your answers to parts A-C below. Also, please limit your information gathering to websites maintained by organizations reasonably judged to be reliable (e.g. websites maintained by government and/or well-known corporations).

Your answers to Q6:Parts A-C below should be provided on a single answer sheet that is turned in along with your bubble sheet with answers to Q1-Q5 above.

Part A. Currently, what is the approximate percentage of undergraduates who graduate in the U.S. with some education loan debt? And what is the approximate average size of this debt when both federal student loan debt and parent loans (e.g. PLUS loans) are included?

Answer Outline for Part A: According to the website FinAid (www.finaid.org/loans) maintained by Citibank, two-thirds (65.6%) of undergraduate students in the U.S. currently graduate with some education loan debt; and the approximate average size of this debt (including both federal government student loan debt and parent loans) is \$21,814.

Part B. Many undergraduate students in the U.S. rely on education loans provided by the U.S. federal government. A key example of this type of loan is Stafford Loans. Describe three key attributes of Stafford Loans.

Answer Outline for Part B: According to FinAid, all student loans provided by the U.S. federal government have low interest rates, do not require credit checks, and do not require collateral. Stafford Loans, in particular, are either provided by private lenders (and guaranteed against default by the U.S. federal government) or are provided directly to students and their parents by the U.S. federal government. “Subsidized” Stafford Loans pay all loan interest while a student is in school, whereas “unsubsidized” Stafford Loans require students to pay this interest either while in school or on a deferred basis (i.e. after graduation).

Part C. What is the latest known default rate on Stafford Loans? Is this default rate currently considered to be an important problem requiring action by the U.S. federal government? Explain.

Answer Outline for Part C: According to a 9/14/2005 news release by U.S. Secretary of Education Margaret Spellings, available at

<http://www.ed.gov/news/pressreleases/2005/09/09142005.html>,

the FY 2003 default rate on Stafford Loans – including data on Federal Family Educational Loan Program (FFELP) loans provided by private lenders (with U.S. federal government guarantees) and Federal Direct Student Loan Program (FDSLP) loans provided directly by the U.S. federal government – was 4.5%. This news release also reports that the FY 2003 default rate is the most current data available and represents a decline from the 5.2% default rate reported for FY 2002. The news release is very upbeat about this decline, noting that this decline is one main reason the Federal Student Aid (FSA) office was taken off the Government Accountability Office's high risk list in January 2005. Consequently, this news release indicates that the U.S. federal government does not currently view the default rate on Stafford Loans to be an important problem in need of federal government action.