

## ANSWERS AT END

ECONOMICS 353

L. Tesfatsion/Spring Semester 2011

EXERCISE 2: Eight Questions (8 Pts Total)

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 **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 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.

**Q1 (1 point).** By definition, a FINANCIAL ASSET is \_\_\_\_\_.

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

**Q2 (1 Point).** One of the six essential functions of FINANCIAL MARKETS is to \_\_\_\_\_.

- 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.

\*\* [1] Matt Koppenheffer, “Will 2011 Be a Good Year for Wall Street?”, *The Motley Fool*, December 13, 2010.

[www.econ.iastate.edu/classes/econ353/tesfatsion/WhatsAheadForWallStreet.MotleyFool2011.htm](http://www.econ.iastate.edu/classes/econ353/tesfatsion/WhatsAheadForWallStreet.MotleyFool2011.htm)

\*\* [2] “End of the Wall Street Investment Bank,” *Times Online*, September 22, 2008

[www.econ.iastate.edu/classes/econ353/tesfatsion/EndOfInvestmentBanking.2008.htm](http://www.econ.iastate.edu/classes/econ353/tesfatsion/EndOfInvestmentBanking.2008.htm)

\* [3] “Wall Street and the Financial Crisis: The Role of Investment Banks,” Senate Hearing, Permanent Subcommittee on Investigations, Exhibit # 1a, April 26, 2010

[www.econ.iastate.edu/classes/econ353/tesfatsion/InvestmentBankRole.SenateHearingsApril2010.pdf](http://www.econ.iastate.edu/classes/econ353/tesfatsion/InvestmentBankRole.SenateHearingsApril2010.pdf)

**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**