

An Overview of the Financial System
ECON 4673
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Problems

1. If you suspect that a company will go bankrupt next year, would you rather hold bonds issued by the company or equities issued by the company? Why?
2. What is the difference between an investment bank and a commercial bank? Are they involved in direct finance or indirect finance?
3. Describe who issues each of the following money market instruments: a) Treasury bills; b) Certificates of deposit; c) Commercial paper; and d) Federal funds.
4. Briefly explain the difference between money markets and capital markets? Does the U.S. government sell debt in either of those markets? If so, what type(s) of debt do they sell and in what market(s) do they sell it?
5. What is the difference between a mortgage and a mortgage-backed security?
6. How can the adverse selection problem explain why you are more likely to make a loan to a family member than to a stranger?
7. Why do loan sharks worry less about moral hazard in connection with their borrowers than some other lenders do?