Economic Analysis of Financial Regulation
ECON 4673
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Problems

1. Why are deposit insurance and other types of government safety nets important to the health of the economy?

2. Suppose a bank fails. How much does a depositor receive from their $350,000 deposit if the FDIC uses the payoff method? How does your answer change if the FDIC uses the purchase and assumption method? Which method costs the taxpayers more?

3. What are the two forms of restrictions on banking competition that were previously enshrined in U.S. law. How did the financial system benefit from those restrictions? What are two disadvantages of those restrictions on the banking industry?

4. What are the three entities that regulate banks?

5. How does a financial institution's appetite for risk change as its level of equity falls? How should the FDIC respond to that change?

6. Calculate the leverage ratio for a bank with the following balance sheet? Is this bank considered to be well capitalized?

Assets		Liabilities/Equity	
Required reserves	35	Checkable deposits	350
Excess reserves	65	Nontransaction deposits	214
Business loans	500	Bank equity	36

7. What are disclosure requirements in the financial industry? What entity imposes the disclosure requirements and on what type of companies are they imposed on? How do those disclosure requirements improve the health of the financial system?