

Banking Industry: Structure and Competition
ECON 4673
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Problems

1. Why does the United States operate under a dual banking system?
2. How does the emergence of interest-rate risk help explain financial innovation? Name two financial innovations that enabled financial institutions to reduce their interest-rate risk.
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. How do sweep accounts and money market mutual funds allow banks to avoid reserve requirements?
5. Identify the legislation that effectively prohibited banks from branching out across state lines? Name and briefly describe two financial innovations banks used to circumvent those restrictions on branch banking. What are two reasons why banks wanted to spread out across state lines? What was the name of the act that effectively removed the restrictions on interstate banking?