

Short Answer Questions

Chapter 37.

1. Outline the principle reasons why governments around the western world sought to deregulate financial markets throughout the 1980s and 1990s.
2. Outline the main characteristics of an asset bubble. Why is it difficult, in practice, to spot asset bubbles when they are occurring?
3. Explain how the search for higher yields led banks to consider loans to the sub-prime market.
4. In theory, how does securitization help to reduce risk? Illustrate your answer with suitable examples.
5. Examine the role of asymmetric information in increases in risk-seeking behaviour in financial markets.
6. Explain how the growth of the credit default swap market increased the risk of financial chaos rather than reduced risk as was originally suggested.
7. Why do central banks tend to lower interest rates and increase liquidity to the financial markets in times of crisis?
8. To what extent would you argue that lax regulation was a primary cause of the financial crisis between 2007 and 2009?
9. Why do authorities believe that short-selling can be destabilising in financial markets? Should short-selling ever be banned?
10. Present the case for and against splitting banking into retail and investment operations.