Economics 252 – Financial Markets

Spring 2011

Lecture 11: Misbehavior, Crises, Regulation, and Self Regulation

February 23, 2011

Multiple Choice Questions

Question 12.1

Which of the following are examples of tunneling?
(More than one answer may apply.)

(a) Insider trading.
(b) Selling assets to a relative at an excessively low price.
(c) Adhering to your duties of care and loyalty as a member of the board of directors.
(d) Writing contracts that pay excessively high prices for products that a firm regularly purchases.

Question 12.2

Which of the following dates represent important dates for the regulation of the New York Stock Exchange, as outlined in the lecture?
(More than one answer may apply.)

(a) The signing of the Buttonwood Agreement in 1792.
(b) The Big Bang in 1986.
(c) May 1, 1975, when the U.S. government made fixed commissions illegal.
(d) The beginning of World War II on September 1, 1939.

Question 12.3

What were the Blue Sky laws in the U.S.?

(a) Regulation of the aviation industry that has been introduced in 1926.
(b) Regulatory package in 1934 that set up the Securities and Exchange Commission (SEC).
(c) Laws regulating financial activity, which were put in place by the state governments during the progressive era.
(d) Agreement between stockbrokers in 1792 that was signed underneath a buttonwood tree.

Question 12.4

What is the Securities Investor Protection Corporation (SIPC) in the U.S.?

(a) It is a private organization that defines the Generally Accepted Accounting Principles (GAAP).
(b) It is an online information system that is available on sec.gov.
(c) It is the division of the SEC that has uncovered the insider trading affair in connection with the IBM Corporation's plan to take over the Lotus Corporation in 1995.
(d) It is a government agency, founded in 1970, that insures your brokerage account against losses due to failure of your stockbroker, analogously to the insurance of the Federal Deposit Insurance Corporation (FDIC) for bank accounts.

Question 12.5

Which of the following statements are true about the U.S. regulatory framework introduced by the Dodd-Frank Act from 2010?
(More than one answer may apply.)

(a) It is trying to push regulation more to the microprudential level from the macroprudential level.
(b) It mandates that the European Systemic Risk Board is located in Frankfurt, Germany.
(c) It creates the Financial Stability Oversight Council.
(d) It creates the Consumer Financial Protection Bureau.

Correct Answers

12.1: (a), (b), and (d)
12.2: (a) and (c)
12.3: (c)
12.4: (d)
12.5: (c) and (d)