

## Economics 252 – Financial Markets

Spring 2011

Guest Lecture by Maurice “Hank” Greenberg, former Chief Executive Officer (CEO) at American International Group (AIG) and current CEO of C.V. Starr & Co. and of Starr International

March 2, 2011

Multiple Choice Questions

### **Question 14.1**

Which of the following statements are true about Mr. Greenberg’s career until the late 1960s?

(More than one answer may apply.)

- (a) He fought in the U.S. Army in World War II and the Korean War.
- (b) He founded Renault Corporation in 1944.
- (c) His first job in the insurance industry was at Continental Casualty Company.
- (d) The first company that he managed after he joined C.V. Starr’s insurance business was called The American Home.

### **Question 14.2**

Which principles does Mr. Greenberg outline as reasons for the success of the American International Group (AIG).

(More than one answer may apply.)

- (a) They were creative in developing products that American business needed, like directors and officers liability insurance as well as kidnap ransom insurance.
- (b) AIG was run with an expense ratio of 19%, in contrast to other insurance companies with an expense ratio of 30%.
- (c) AIG limited attention to the U.S. market and ignored business in other countries of the world.
- (d) The leadership team at AIG shared the same values and aspirations. It was like a band of brothers.

## **Question 14.3**

What, according to Mr. Greenberg, happened to AIG during the financial crisis from 2007-2008?

(More than one answer may apply.)

- (a) Goldman Sachs and Morgan Stanley were given a bank holding company license, whereas AIG was denied one.
- (b) AIG borrowed \$85 million at 14.5% interest from the New York Fed and the Fed took 79.9% of the equity of the company.
- (c) The U.S. government installed Ed Liddy as the new CEO.
- (d) AIG kept its AAA rating throughout the financial crisis from 2007-2008.

## **Question 14.4**

Which of the following are factors that Mr. Greenberg deems responsible for the financial crisis from 2007-2008?

(More than one answer may apply.)

- (a) Investment banks did not use a sufficient degree of leverage.
- (b) Since the Clinton administration, there has been the aspiration that everybody should have the right to own a home. This has led to many situations, in which people live in homes that they could not afford.
- (c) Not enough of the CDOs in financial markets were rated AAA.
- (d) Rules for credit default swaps changed, so that these contracts would respond to any decrease in value, instead of just a default, which was the case previously.

## **Question 14.5**

What is Mr. Greenberg's assessment of the insurance industry in China?

(More than one answer may apply.)

- (a) China today has passed the United States in the number of cars being sold per year. This represents rapid growth opportunities in the insurance industry in China.
- (b) The Chinese insurance industry today is as mature as the insurance industry in the U.S.
- (c) The largest insurance company in the world today, by market value, is China Life.
- (d) Chinese companies do not have an agency system to sell life insurance at all. Instead, they only have employees selling life insurance.

## **Correct Answers**

14.1: (a), (c), and (d)

14.2: (a), (b), and (d)

14.3: (a), (b), and (c)

14.4: (b) and (d)

14.5: (a) and (c)