

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)