Economics 252 – Financial Markets

Spring 2011

Lecture 17: Professional Money Managers and their Influence

April 11, 2011

Multiple Choice Questions

Question 20.1

With a back-of-the-envelope calculation, Professor Shiller computes the human capital of the world. What is the number that he computed under fairly conservative parameter assumptions?

(a) $1.2 million.
(b) $1.2 billion.
(c) $1.2 trillion.
(d) $1.2 quadrillion.

Question 20.2

Which of the following statements are true about prudential investment standards, according to the presentation in class?
(More than one answer may apply.)

(a) The Employment Retirement Income Security Act in the U.S. from 1974 defines prudential investment standards as ''investment managers running pension funds must manage with the care, skill, prudence, and diligence under the circumstances then prevailing, that a prudent man acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims."
(b) It has created a class of institutional investors, who live in fear of laws that could come down on them, if they, with the best of intentions, invest on behalf of their clients in an unconventional way, and therefore could be punished for violating the prudent person rule.
(c) David Swensen, Yale Chief Investment Officer, has interpreted prudential standards in such a way that the Yale endowment is solely invested in AAA-rated government bonds.
(d) The Financial Stability Oversight Commission created by the U.S. Dodd-Frank Act from 2010, makes recommendations on prudential standards, e.g. with regard to leverage.

Question 20.3

Which of the following statement about the history of pension plans in the U.S. are true, according to the presentation in class?
(More than one answer may apply.)

(a) The American Express Company, a delivery company, set up the first U.S. pension plan in 1875.
(b) In 1950, Charles Wilson, the then-chairman of General Motors, proposed the first fully funded pension plan.
(c) The Employment Retirement Security Act (ERISA) from 1974 set up the Pension Benefits Guarantee Corporation, a government organization that insures the funding of pension plans.
(d) Starting in the 1980s, firms increasingly offered defined benefit plans, instead of defined contribution plans.

Question 20.4

What happened to the Yale endowment in 1825?

(a) Elihu Yale, unsatisfied with the early development of the Yale endowment, gave a donation from his private wealth that doubled the endowment.
(b) The Yale endowment invested 90% of its funds into the trading company Seragen, which declared bankruptcy only four months later.
(c) Yale University put its entire endowment in an investment in the Eagle Bank of New Haven and ended up with nothing.
(d) In 1825, Yale University had one of the largest endowments in the country, second only to Harvard University.

Question 20.5

Which of the following statements apply to the purposes and characteristics of family foundations?
(More than one answer may apply.)

(a) A family foundation is an office of full-time employees that manages a family's portfolio.
(b) A family foundation is a charitable organization, created by a family with the name of the family typically on the foundation.
(c) As of 2006, a family foundation in the U.S. needs to have at least $1 billion in order to be acknowledged as a charitable organization by the Internal Revenue Service (IRS).
(d) Contributions to a family foundation are charitable donations that qualify for tax-deductions in the U.S. However, the endowment of the foundation has to be used for charitable purposes.

Correct Answers

20.1: (d)
20.2: (a), (b), and (d)
20.3: (a), (b) and (c)
20.4: (c)
20.5: (b) and (d)