Economics 252 – Financial Markets

Spring 2011

Lecture 20: Finding your Purpose in a World of Financial Capitalism

April 20, 2011

Multiple Choice Questions

Question 23.1

What is the main message of Peter Unger's Living High and Letting Die?

(a) His central message about the capitalist social class was that "anyone who believes that any great enterprise of an industrial character can be started without labor must have little experience of life. Let anyone try to get a railroad built or to start a factory and win reputation for its products, and he will find what obstacles must be overcome, what risks must be taken, what perseverance and courage are necessary."

(b) *Living High and Letting Die* is a biography of Paul Allen, who was one of the top executives at Microsoft.

(c) After a plea to donate to UNICEF on the first page of the book, he addresses a multitude of examples for moral dilemmas, showing that the human spirit is very empathetic and sympathetic in certain dimensions, but not so in others.

(d) He presented a dismal law for the world that is faced with a growing population: "Population, when unchecked, increased in a geometrical ratio and subsistence for man in an arithmetical ratio."

Question 23.2

Professor Shiller discusses examples of times in history, in which financial arrangements have been preserved despite major overhauls, but also of times in history, in which the opposite occurred. Which overhauls are part of his list of examples and what has happened to financial arrangements in these particular instances?
(More than one answer may apply.)

(a) After World War I, Germany was supposed to make huge reparation payments. Instead of confiscating assets of shareholders and bondholders, Germany approached the reparation payments through taxation.
(b) After the Shah of Iran was overthrown by an Islamic Revolution, the social security system that was in place under the regime of the Shah was preserved.
(c) Subsequent to establishing the People's Republic of China in 1949, Mao Zedong decided to preserve all financial arrangements.
(d) After the end of the apartheid government in South Africa in 1994, all pensions and insurance contracts for previous members of the government were discontinued.

Question 22.3

What is the main point that Professor Shiller makes about Robert K. Merton, the sociologist at Columbia University?

(a) The option pricing theory that he has developed is one of the most influential developments in the history of financial markets.
(b) In his sociological studies, Robert K. Merton has elaborated on the difference between cosmopolitans and locals in a small town in the U.S. Professor Shiller outlines that the split between these two groups has developed on a world-scale in the last 50 years.
(c) Robert K. Merton emphasized that ownership of capital is key to a good life and that the general population is excluded from that.
(d) Robert K. Merton has coined the term "30 years war", referring to a war against the people of the world, fought by the financial community in the halls of Congress and Parliament by lobbying. He argues that the companies have become more and more sophisticated in lobbying governments to fulfill their ambitions, and so, the income inequality that is increasing, particularly in the United States, but also elsewhere in the world, is a consequence of this.

Question 23.4

Which of the following are examples for plans to enhance the democratization of finance, as outlined in the lecture?
(More than one answer may apply.)

(a) Livelihood insurance.
(b) Reducing the paychecks of a deeply indebted person without that person's knowledge.
(c) Home equity insurance.
(d) Continuous workout mortgages.

Question 23.5

Which of the following statement are true about the career of Nobel Prize winner Mohammad Yunus?
(More than one answer may apply.)

(a) He received a Ph.D. in economics from Vanderbilt University in 1969.
(b) After his Ph.D., he became an assistant professor at Middle Tennessee State University.
(c) He started making microfinance loans in Bangladesh in the late 1970s, which later resulted in the founding of the Grameen Bank.
(d) He won the Economics Nobel Prize in 2006.

Correct Answers

23.1: (c)
23.2: (a) and (b)
23.3: (b)
23.4: (a), (c), (d)
23.5: (a), (b), (c)