SCORE

ECON 133 – Securities Markets – Fall 2010

QUIZ #6 NAME: ________________________________

Student Number: __________________________

Directions: The following questions are based on Marcus Brunnermeier's article called "Deciphering the Liquidity and Credit Crunch 2007-2008." Choose the best answer to the 10 questions posed below and enter in the box. You have exactly 10 minutes to complete this exercise.

1. On Wednesday Dec. 1 2010, the Federal Reserve disclosed detail of $3.3 trillion in loans made to financial firms, companies, and foreign central banks during the crisis. All of the following are true EXCEPT

   A. Morgan Stanley used the program excessively, indicating it was close to collapse
   B. U.S. commercial banks benefited from the program
   C. U.S. non-financial companies, such as GE and McDonalds, did not have access to the program
   D. European Central Bank continued to use the program into 2010

2. A collateralized debt obligation (CDO) is essentially a
   A. A bond backed by collateral, such as mortgage payments
   B. An insurance on a bond backed by collateral
   C. An arrangement to swap cash flows between variable and fixed interest payments

3. NINJA loans were given out by mortgage brokers to borrowers with
   A. No documentation
   B. No income
   C. No identity

4. Top tranches in CDO portfolios received AAA ratings because of all of the following EXCEPT?

   A. Investors CDOs could purchase default protection, boosting a security's rating
   B. Banks would provide credit lines to CDO issuers if liquidity shortages arose
   C. Credit risk models were based on the assumption that a nationwide housing downturn is improbable
   D. U.S. Treasury had set an emergency fund to backup the value of CDOs in distress

5. The total value of losses tied directly to mortgage defaults was approximately

   A. $500 million   C. $8 trillion
   B. $500 billion   D. $8 billion

6. The total value in stock market decline in one year since mortgage delinquencies began was approximately

   A. $500 million   **C. $8 trillion**
   B. $500 billion   D. $8 billion

7. . Interest rate swaps involve the exchange of ________________.

   A. fixed rate bonds for floating rate bonds
   B. floating rate bonds for fixed rate bonds
   C. net interest payments and an actual principal swap
   D. net interest payments based on notional principal, but no exchange of principal

8. A March 11, 2008 email from Goldman Sachs sparked false rumors and led to a run on which of the following institutions?
   A. AIG
   B. Bank of America
   C. Bear Stearns
   D. Lehman Brothers

9. The review for the final exam for this class will be on

   A. Sunday Dec. 5th, 6-8pm
   B. Monday Dec. 6th, 6-8pm
   C. Monday Dec. 5th, 9:30-1:40am

10. In one sentence or less, which specific material covered in this course did you find particularly interesting and enjoyable to learn?