MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.

1) As "haircuts" increased during 2007–2009, financial institutions found that to borrow the same loan amount now required ________ collateral.
   A) more  B) default-free  C) no  D) less

2) A possible sequence for the three stages of a financial crisis in an advanced economy might be ________ leads to ________ leads to ________.
   A) banking crises; increase in interest rates; unanticipated decline in price level
   B) unanticipated decline in price level; banking crises; increase in interest rates
   C) banking crises; increase in uncertainty; increase in interest rates
   D) asset price declines; banking crises; unanticipated decline in price level

3) A credit boom can lead to a(n) ________ such as we saw in the tech stock market in the late 1990s.
   A) liability war  B) asset-price bubble
   C) decline in lending  D) decrease in moral hazard

4) When financial institutions go on a lending spree and expand their lending at a rapid pace they are participating in a ________
   A) market race.  B) credit bust.
   C) credit boom.  D) deleveraging.

5) A serious consequence of a financial crisis is ________
   A) an increase in asset prices.  B) a contraction in economic activity.
   C) financial globalization.  D) financial engineering.

6) If a borrower takes out a $200 million loan in a repo agreement and is asked to post $220 million of mortgage-backed securities as collateral, the "haircut" is ________
   A) 20%.  B) 10%.
   C) 5%.  D) 50%.

7) When the value of loans begins to drop, the net worth of financial institutions falls causing them to cut back on lending in a process called ________
   A) releveraging.  B) deleveraging.
   C) capitulation.  D) deflation.

8) The mismanagement of financial liberalization in emerging market countries can be understood as a severe ________
   A) asymmetric information problem.  B) free-rider problem.
   C) lemons problem.  D) principal/agent problem.

9) The originate-to-distribute business model has a serious ________ problem since the mortgage broker has little incentive to make sure that the mortgagee is a good credit risk.
   A) principal-agent  B) collateralized debt
   C) democratization of credit  D) debt deflation
10) A sharp depreciation of the domestic currency after a currency crisis leads to
   A) decrease in the value of foreign currency-denominated liabilities.
   B) lower interest rates.
   C) higher inflation.
   D) lower import prices.

11) In emerging market countries, the deterioration in bank’s balance sheets has more ________ effects on lending and economic activity than in advanced countries.
   A) advancing     B) affirming    C) negative    D) positive

12) A feature of debt markets in emerging-market countries is that debt contracts are typically
   A) long term.       B) very short term.
   C) perpetual.      D) intermediate term.

13) If uncertainty about banks’ health causes depositors to begin to withdraw their funds from banks, the country experiences a(n)
   A) increase in information available to investors.
   B) reduction of the adverse selection and moral hazard problems.
   C) financial recovery.
   D) banking crisis.
Answer Key
Testname: CH09

1) A
2) D
3) B
4) C
5) B
6) B
7) B
8) D
9) A
10) C
11) C
12) B
13) D