ch21

Student: ____

1. A universal FI is an FI that has expanded its operations across country lines.
   True False

2. Banks increasingly have been susceptible to nonbank competition on both sides of the balance sheet.
   True False

3. The commercial paper market is an example of nonbank competition on the asset side of the balance sheet that has become increasingly intense for banks.
   True False

4. In the U.S., the Glass-Steagall Act limited the integration of commercial banking and securities activities.
   True False

5. The Glass-Steagall Act allowed commercial banks to underwrite new issues of Treasury securities.
   True False

6. Section 20 affiliates allow banks to transact previously ineligible securities activities.
   True False

7. Banks have been permitted to acquire existing investment banks since 1997.
   True False

8. In the banking environment, economic and legal firewalls often have been designed to separate the risks of investment bank affiliate activities from commercial banks.
   True False

9. In recent years, commercial banks have attempted to expand their activities into nonbanking areas, but securities firms have not been interested in expanding into commercial banking.
   True False

10. The Financial Services Modernization Act repealed the Glass-Steagall barriers between commercial banking and investment banking.
    True False

11. Historically, commercial banks have been prohibited from acting as an underwriter of insurance products.
    True False

12. The Financial Services Modernization Act of 1999 allows bank holding companies to open insurance underwriting affiliates.
    True False

13. The Financial Services Modernization Act of 1999 prohibits insurance companies from opening commercial banks.
    True False

14. Under the Financial Services Modernization Act of 1999, commercial banks can own and actively manage nonfinancial corporations.
    True False

15. The barriers among nonbank financial service firms and commercial firms are generally much stronger than the barriers separating banking and commercial sector activities.
    True False

16. The Financial Services Modernization Act of 1999 has provided for more standardized relationships among financial service sectors and commerce.
    True False

17. A fully integrated universal bank allows a bank to engage in securities activities only through a separately owned securities affiliate.
    True False

18. The safety and soundness of a holding company that has both a bank subsidiary and a securities affiliate can be enhanced over time by the product diversification benefits of a more stable earnings stream caused by having well-diversified financial services.
    True False

19. Research suggests that the total risk exposure of a financial services organization could actually increase if there is excessive product expansion in some nonbank lines.
    True False

20. Economies of scope opportunities seem to be available in the financial services industry, but economies of scale opportunities do not seem to exist.
    True False

21. Information transfer refers to the conflict of interest that occurs when banks have the power to sell nonbank products.
    True False

22. The conflict of interest that occurs when a bank suggests the issuance of capital market debt for the purpose of reducing bank loans under conditions of deteriorating or questionable firm financial health is commonly referred to as bankruptcy risk transference.
    True False

23. The process of using lending power to coerce a loan customer to use products sold by a securities affiliate is called information transfer.
    True False

24. Tie-ins and third-party loans are prohibited by current bank regulations.
    True False

25. Chinese walls are barriers within organizations that limit the flow of confidential information between departments of business areas.
    True False

26. The existence of the "too big to fail" doctrine may encourage large banks to take excessive risks in securities underwriting activities.
    True False

27. The required monitoring and surveillance efforts of several regulatory bodies in the case of large holding companies with multi-subsidiaries may actually decrease the efficiency of regulatory oversight.
    True False

28. Increased competition for securities underwritings should reduce the spreads and thus lower the price paid for the securities by the investing public.
    True False

29. Expansion on a de novo basis implies the establishment and construction of a new office in a location where previously no office existed.
    True False

30. Historically regulations have encouraged the expansion of bank offices domestically.
    True False

31. Banks typically have faced few restrictions in expanding their businesses, while securities firms and insurance companies have faced complex rules regarding expansion.
True False

32. The establishment of a presence in local markets by insurance companies is reasonably inexpensive because of low capital requirements established by state regulators.
True False

33. In the middle part of the twentieth century, large banks addressed the issue of interstate branch banking restrictions by forming multibank holding companies with bank subsidiaries in different states.
True False

34. A one bank holding company is a parent bank holding company with only one subsidiary involved in banking activities.
True False

35. By the early 1990s interstate banking pacts basically had opened the doors for nearly all banks to practice interstate branching in any geographic location.
True False

36. Reciprocal banking pacts allowed the non-state companies to purchase banks as long as the purchase permission went in both directions.
True False

37. Interstate banking barriers have deteriorated in part because of the decisions to deal with the failing thrift industry by allowing acquiring firms to cross state lines.
True False

38. The Garn-St Germain Act is an interstate banking law that allows banks to branch on an interstate basis rather than building more expensive holding company structures.
True False

39. In order to achieve a more stable revenue stream in a merger, the asset and liability portfolios of the two institutions should have similar credit, interest rate, and liquidity characteristics.
True False

40. Success in a merger from revenue enhancement is more likely if the markets into which expansion occurs are less than fully competitive.
True False

41. The use of the Herfindahl-Hirschman Index (HHI) to measure market concentration is encouraged for banks because of the ease of separating banks from thrifts and insurance companies.
True False

42. Merger premiums tend to be higher for target banks in competitive environments, but for which the target bank's loan portfolios are of high quality.
True False

43. Research on bank mergers for the decade of the 1990s found that improved performance of the merged bank occurred because of both revenue enhancements and cost reduction.
True False

44. U.S. financial institutions have expanded abroad in recent years, although their foreign counterparts have been prohibited from expanding into the U.S.
True False

45. The emergence of the Euro as a uniform medium of exchange is expected to cause the importance of the dollar to increase among major European countries.
True False

46. The USA Patriot Act of 2001 prohibits U.S. banks from providing banking services to foreign banks.
True False

47. U.S. banking offices abroad normally are permitted by the Federal Reserve System to engage in activities that are allowed in the foreign country even when such activities are not permitted in the U.S.
True False

48. The NAFTA agreement and other agreements reached through the help of the World Trade Organization should reduce some of the restrictions that have face U.S. banks in attempts to enter emerging market countries.
True False

49. Large size is an important characteristic in international banking because it gives a bank a greater ability to diversify across borders.
True False

50. The European Community Second Banking Directive has aided the international competitive position of European banks by creating a single banking market in Europe.
True False

51. A foreign bank subsidiary in the U.S. is restricted to using only funds borrowed on the wholesale and money markets.
True False

52. The International Banking Act of 1978 attempted to provide a level playing field for domestic and foreign banks in U.S. banking markets.
True False

53. The effect of the International Banking Act of 1978 was to accelerate the expansion of foreign bank activities in the U.S. primarily because of their access to the Federal Reserve's discount window, Fedwire, and FDIC insurance.
True False

54. The purpose of the Foreign Bank Supervision Enhancement Act of 1991 was to extend federal authority over foreign banking organizations in the U.S.
True False

55. The FBSEA of 1991 required a foreign bank to have Fed approval to establish a branch as a new entry, but does not require such approval if the entry is by acquisition.
True False

56. Offices of foreign banks may be examined by the Federal Reserve under the FBSEA of 1991.
True False

57. One result of the FBSEA was the increase in the regulatory burden of foreign banks in the U.S.
True False

58. International expansion by a commercial bank should provide increased access to funding sources.
True False

59. International expansion often produces revenue-risk diversification benefits for U.S. banks.
True False

60. A disadvantage to international bank expansion is the potential increase in the monitoring and information collection costs in some overseas markets.
True False

61. Commercial banks have expanded their activities in each of the following ways EXCEPT
A. opening nonbank banks.
B. grandfathering previously permitted activities.
C. expanding off shore.
D. petitioning regulators for enhanced powers.
E. acquiring nonfinancial firms.

62. The banking industry in the U.S. has faced increased competition
A. on the liability side of the balance sheet from the commercial paper market.
B. on the asset side of the balance sheet from money market mutual funds.
C. on the liability side of the balance sheet from money market mutual funds.
D. on the asset side of the balance sheet from the commercial paper market.
E. Answers C and D only.

63. Which of the following has proven to be strong competition for bank deposit and transaction account products?
A. Commercial paper market.
B. Money market mutual funds.
C. Finance company business credit.
D. Hedge funds.
E. None of the above.

64. Nonbank institutions have NOT gained competitive momentum for which of the following financial products?
A. Commercial paper.
B. Money market mutual funds.
C. Annuities.
D. Business credit market.
E. Savings accounts.

65. The economic value of narrowly defined bank franchises has declined because
A. product line restrictions inhibit the ability of an FI to optimize the set of financial services it can offer.
B. product restrictions limit the ability of FI managers to adjust flexibly to shifts in the demand for financial products.
C. product restrictions limit the ability of FI managers to adjust flexibly to shifts in costs due to technology and related innovations.
D. All of the above.
E. Answers A and B only.

66. The Pecora Commission's findings about the 1929 stock market crash resulted in the
A. Financial Services Modernization Act.
B. Glass-Steagall Act.
C. Federal Reserve Act.
D. International Banking Act.
E. Garn St. Germain Depository Institutions Act.

67. Identify the action taken by OCC and the Federal Reserve in 1997, to expand the permitted activities of bank holding companies.
A. Repealed the Glass-Steagall barriers between commercial banking and investment banking.
B. Allowed commercial banks to acquire directly existing investment banks.
C. Allowed investment banks to offer banking products.
D. Allowed investment banks to offer deposit products.
E. All of the above.

68. Permissible section 20 subsidiary activities include
   A. insurance activities.
   B. hedging.
   C. factoring.
   D. extensions of lines of credit.
   E. investment banking activities.

69. This legislation restricts insurance companies from owning or being affiliated with full service banks.
   A. The McCarran-Ferguson Act of 1945.
   B. The Bank Holding Company Act of 1956.
   C. The Garn-St. Germain Depository Institutions Act of 1982.
   D. Savings and Loan Holding Company Act of 1968.
   E. The International Banking Act of 1978.

70. This legislation defines a bank as any institution that accepts deposit insurance coverage.
   A. The McCarran-Ferguson Act of 1945.
   B. The Bank Holding Company Act of 1956.
   C. The Garn-St. Germain Act of 1982.
   D. The Competitive Equality Banking Act of 1987.
   E. The International Banking Act of 1978.

71. This legislation explicitly stated that banking and insurance were not closely related activities.
   A. The McCarran-Ferguson Act of 1945.
   B. Savings and Loan Holding Company Act of 1968.
   C. The Garn-St.Germain Depository Institutions Act of 1982.
   D. The Competitive Equality Banking Act of 1987.
   E. The International Banking Act of 1978.

72. The Financial Services Modernization Act allowed for
   A. the creation of financial services holding companies.
   B. the replacement of all previous regulatory agencies with one super regulator.
   C. the placement of some securities underwriting in bank subsidiaries.
   D. All of the above.
   E. Answers A and C only.

73. The Financial Services Modernization Act of 1999
   A. stipulates that a financial services holding company that engages in commercial banking, investment banking, and insurance activities will be functionally regulated.
   B. allows bank holding companies to open insurance underwriting affiliates.
   C. requires banks that underwrite and sell insurance to operate under the same set of state regulations as insurance companies.
   D. All of the above.
   E. Answers A and B only.

74. How could insurance companies get around the restrictive provisions imposed by the bank holding company act of 1956?
   A. Through the organizational mechanism of establishing nonbank bank subsidiaries.
   B. By opening federally chartered thrifts.
   C. By offering credit-related life, accident, health, or unemployment loans.
   D. By buying a full-service bank and then divesting its demand deposits or commercial loans.
   E. Answers A and D only.

75. A bank holding company must obtain the approval of the Fed before acquiring more than ____ of the shares of an additional bank, bank holding company, or financial services firm.
    A. 5 percent
    B. 10 percent
    C. 15 percent
    D. 25 percent
    E. 50 percent

76. Which of the following describes a firm commitment underwriting?
    A. Finding a large institutional buyer or investor such as another FI for a private placement.
    B. Investment bankers acting as agents on a fee basis related to their success in placing the issue.
    C. Investment bankers act as agents and purchase securities from the issuer at one price for sale to the public at a different price.
    D. Bank using its lending powers to coerce customers to buy the products sold by its securities affiliate.
    E. Purchase of securities from the issuer at one price for resale to the public at a slightly higher price.

77. In firm commitment underwriting, the underwriter's spread is
    A. the bid ask spread in the secondary market.
    B. the interest spread earned by the FI.
    C. the difference between the underwriter's buy and sell price.
    D. the difference between the offer price under a firm commitments as opposed to a best efforts underwriting contract.
    E. the commission per share.

78. An investment bank may take a big loss when underwriting an issue on a firm commitment basis because
    A. it may overestimate the demand for the shares by the market.
    B. it may underestimate the demand for the shares by the market.
    C. interest rates may rise during the offering period.
    D. security prices in general may increase during this period.
    E. Answers A and D only.

79. If the firm commitment price is $15 and one million shares are sold in the primary market for $15.50 and then resold in the secondary market for $15.75, what is the underwriter's profit/loss?
    A. -$500,000.
    B. $500,000.
    C. $750,000.
    D. -$750,000.
    E. 0

80. If the firm commitment price is $15 and one million shares are sold in the primary market for $13 and then resold in the secondary market for $13.25, what is the underwriter's profit/loss?
    A. -$2,000,000.
    B. $2,000,000.
    C. -$1,750,000.
    D. $1,750,000.
    E. 0

81. An underwriter is quoting the following rates for the issue of new securities on behalf of a firm on a firm commitment basis: $64.00-64.25. 2,000,000 shares are being offered.
    A. The maximum amount that can be earned by the underwriter (ignoring other costs) $1,000,000.
    B. The maximum amount that can be earned by the underwriter (ignoring other costs) is $500,000.
    C. The minimum amount that can be earned (ignoring other costs) by the underwriter is $0.
    D. The minimum amount that can be earned (ignoring other costs) by the underwriter is -$500,000.
    E. The minimum amount that can be earned (ignoring other costs) by the underwriter is -$1,000,000.

82. A bank holding company has a banking affiliate and a securities affiliate. If the securities affiliate fails, it could cause the bank to also fail because

A. the bank holding company could use funds from the banking affiliate to provide funds to the securities affiliate by downstreaming.

B. the bank holding company could use funds from the banking affiliate to provide funds to the securities affiliate by upstreaming.

C. the bank holding company could induce the banking affiliate to make loans to the securities affiliate.

D. Answers A and C only.

E. Answers B and C only.

83. Which of the following is not a reasonable argument for the increase in the number of banks that can compete in security underwriting activities?

A. Small firms gain increased access to the capital markets.

B. Lower commission and fee expense for firms issuing securities.

C. Issuing firms realize an increase in the degree of underpricing of new issues.

D. The market for securities underwriting will see a decline in market concentration.

E. More competition will increase the new issue proceeds to the issuing firm.

84. Which action of the holding company to help its securities affiliate can damage the financial health of its banking subsidiary?

A. Downstreaming funds from the subsidiary and then upstreaming it to the securities affiliate.

B. Upstreaming funds from the securities affiliate and then downstreaming it to the bank subsidiary.

C. Indulging in product diversification.

D. Upstreaming funds from the bank subsidiary and then downstreaming it to the securities affiliate.

E. Diversifying the earnings stream of a banking company geographically.

85. Identify a condition under which conflicts of interest are exploitable.

A. Market for bank service is very competitive.

B. Banks have monopoly power over their customers.

C. Information flows between the customer and the bank are symmetric.

D. Bank does not possess any information advantage over its customers.

E. Bank places a relatively high value on its reputation.

86. Which of the following is NOT a potential conflict of interest identified by regulators and academics?

A. Salesperson's stake.

B. Stuffing fiduciary accounts.

C. Bankruptcy risk transference.

D. Procompetitive effects.

E. Third-party loans.

87. Concern about bank solvency has been used to justify product segmentation on the grounds of

A. safety and soundness issues.

B. economy of scale and scope issues.

C. conflict of interest issues.

D. deposit insurance issues.

E. regulatory oversight issues.

88. Concern about the cost of managing a widely diversified financial company has been used to justify product segmentation on the grounds of

A. safety and soundness issues.

B. economy of scale and scope issues.

C. conflict of interest issues.

D. deposit insurance issues.

E. regulatory oversight issues.

89. Concern about the improper transfer of inside information has been used to justify product segmentation on the grounds of
A. safety and soundness issues.
B. economy of scale and scope issues.
C. conflict of interest issues.
D. deposit insurance issues.
E. regulatory oversight issues.

90. Concern about the financial impact of an extension of the federal safety net has been used to justify product segmentation on the grounds of
A. safety and soundness issues.
B. economy of scale and scope issues.
C. conflict of interest issues.
D. deposit insurance issues.
E. regulatory oversight issues.

91. Concern about the ability to analyze a more complex corporate structure has been used to justify product segmentation on the grounds of
A. safety and soundness issues.
B. economy of scale and scope issues.
C. conflict of interest issues.
D. deposit insurance issues.
E. regulatory oversight issues.

92. Concern about potential abuses of fiduciary responsibility has been used to justify product segmentation on the grounds of
A. safety and soundness issues.
B. economy of scale and scope issues.
C. conflict of interest issues.
D. deposit insurance issues.
E. regulatory oversight issues.

93. A bank threatens to credit ration unless the customer agrees to let the bank's securities affiliate do its securities underwritings. Identify the conflict of interest in this scenario.
A. Salesperson's Stake.
B. Stuffing fiduciary accounts.
C. Tie-ins.
D. Third-party loans.
E. Information transfer.

94. According to economists, this is the main reason for underpricing of new issues.
A. Lack of competition among existing investment banks.
B. Entry of banks into the investment banking sector.
C. Monopoly power of the existing investment banks.
D. Mismatch of demand and supply of securities.
E. Risk premium for information advantage possessed by issuers.

95. What is the impact of underpricing a securities issue?
A. The underwriter loses while the issuing firm gains.
B. Both the underwriter and the outside investor gains while the issuing firm loses.
C. The outside investor loses while the issuing firm gains.
D. Both the underwriter and the outside investor loses while the issuing firm gains.
E. All three parties lose when the securities are under priced.

96. Chinese Walls are
   A. internally imposed barriers that limits the flow of confidential client information among departments or areas.
   B. regulatory barriers that are introduced to insulate the bank against losses.
   C. regulations that prohibit a bank from lending anything at all to its securities affiliates.
   D. restrictions on a bank holding company that prevents the use of subsidiary funds to support ailing affiliates.
   E. hurdles created by excessive drain in the form of dividends and fees from a bank.

97. Firewalls are
   A. barriers introduced to protect the bank against losses.
   B. mechanisms to insure bank shareholders against loss.
   C. regulations restricting the proliferation of Section 20 subsidiaries.
   D. limitations on capital flows to the parent company.
   E. safety codes required in tall skyscrapers.

98. Identify the procompetitive effect of banks' expansion of their securities activities.
   A. Reduces the degree of underpricing of new issues.
   B. Encourages stuffing of fiduciary accounts.
   C. Increased provision of cheap loans on the implicit condition that this loan is used to purchase securities.
   D. Use of lending powers by a bank to coerce a customer to buy the products sold by its securities affiliate.
   E. Use of inside information by a bank to set the prices, or help the distribution
   F. of securities offerings by its affiliate.

99. Restrictions on branching occurred initially at the state level because
   A. money center banks feared a loss of correspondent business.
   B. small unit banks feared a loss of business from the larger branching banks.
   C. improved communications and customer needs.
   D. All of the above.
   E. Answers A and B only.

100. During most of the twentieth century the banking industry was able to continue to expand geographically by
   A. utilizing multi-bank holding companies.
   B. utilizing one-bank holding companies.
   C. successfully implementing reciprocal regional banking pacts.
   D. All of the above.
   E. Answers A and B only.

101. The Douglas amendment to the Bank Holding Company was passed to address a potential loophole to interstate banking posed by
   A. unit banks.
   B. multibank holding companies.
   C. one-bank holding companies.
   D. foreign banks.
   E. reciprocal agreements.

102. The passage of which regulation extended the interstate acquisition powers of banks to encompass healthy thrifts?
   A. Bank Holding Company Act.
   B. McFadden Act.
   C. Garn-St. Germain Act.
   D. Financial Institutions Reform, Recovery, and Enforcement Act.
   E. Glass-Steagall Act.

103. Identify the legislation that restricted the branching of nationally-chartered banks to the same guidelines as allowed to state-chartered banks.
   A. Bank Holding Company Act.
   B. McFadden Act.
   C. Garn-St. Germain Act.
   D. Glass-Steagall Act.
   E. Competitive Equality in Banking Act.

104. Which of the following items has not been a factor in the erosion of interstate banking restrictions?
   A. The purchase of troubled banks.
   B. The establishment of nonbank banks.
   C. The Bank Holding Company Act Amendments of 1970.
   D. The expansion of OBHC activities.
   E. The establishment of regional and national banking pacts.

105. An organization form that limits business transactions to a single location is
   A. an unit bank.
   B. a multibank holding company.
   C. a one-bank holding company.
   D. an interstate bank.
   E. a fully integrated universal bank.

106. An organization form that establishes bank subsidiaries rather than branches to expand is
   A. an unit bank.
   B. a multibank holding company.
   C. a one-bank holding company.
   D. a representative office.
   E. a nonbank bank.

107. An agreement to allow competition from certain geographic areas, usually in return for the ability to compete within those areas, is
   A. a federal charter.
   B. an integrated agreement.
   C. a holding company agreement.
   D. an interstate banking pact.
   E. a state charter.

108. These interstate banking laws allowed an out-of-state bank to acquire an in-state target bank even if the acquirer's home state did not give banks from the target's state similar acquisition powers.
   A. Nationwide laws.
   B. Nationwide reciprocal.
   C. Regional reciprocal.
   D. All of the above.
   E. Answers A and B only.

109. The first state in the U.S. to allow out of state acquisitions was
   A. New York.
   B. California.
   C. Florida.
   D. Maine.
   E. Alaska.

110. The first regional banking pact in the U.S. was in
   A. the Southeast.
   B. New England.
   C. the Northwest.
   D. the Southwest.
   E. the Midwest.

111. Legislations restricting geographic expansion have been undermined in all of the following ways EXCEPT
A. regional banking pacts.
B. purchase of troubled banks.
C. opening of nonbank banks.
D. acquisition of subsidiaries.
E. acquisition of insurance companies out of state.

112. The Riegle-Neal Act of 1994
A. specifically allows banks to establish de novo branches in new states.
B. effectively allows full interstate branching within the U.S.
C. is given credit for initiating a wave of bank mergers across the U.S.
D. All of the above.
E. Answers B and C only.

113. Which of the following is NOT an advantage of domestic geographic diversification?
A. Consumer convenience.
B. Risk diversification.
C. Efficiency of operations.
D. Exploitation of economies of scale.
E. Exploitation of monopoly power.

114. Which of the following is true of X efficiencies?
A. They result from diseconomies of scope.
B. They are difficult to pin down in a quantitative fashion
C. They result from diseconomies of scale.
D. They are a direct result of significant economies of scope.
E. They are a direct result of significant economies of scale.

115. The argument that mergers are valuable because they create revenue synergies is based on
A. the opportunity to expand into less than fully competitive markets.
B. the diversification affects of combining dissimilar asset and liability portfolios.
C. realizable economies of scope.
D. the enhancement of revenues by acquiring a bank in a growing market.
E. Answers A, B, and D only.

116. The realization of revenue synergies from the acquisition of a bank may come
A. from expansion into less than fully competitive markets.
B. from acquiring a bank in a growing market.
C. through diversification of asset and liability mixes between the two banks.
D. All of the above.
E. Answers B and C only.

117. The Herfindahl-Hirschman Index (HHI) is a measure of
A. market concentration.
B. profitability.
C. market performance.
D. annual sector growth.
E. investor reaction.

118. A level _____ of the Herfindahl-Hirschman Index (HHI) is considered to reflect a highly concentrated market.
A. above 1,000
B. above 10,000
C. between 1,000 and 1,500
D. above 1,800
E. below 1,000

119. A value below 1,000 of the Herfindahl-Hirschman Index (HHI) is considered to reflect
   A. a highly concentrated market.
   B. an unconcentrated market.
   C. a high growth market.
   D. a moderately concentrated market.
   E. an untapped market.

120. The use of the Herfindahl-Hirschman Index (HHI) to measure bank concentration has been criticized because
   A. ascertaining whether the relevant geographic scope of the market should be regional, national, or city is becoming increasingly difficult to determine.
   B. the index was originally designed for nonfinancial competition.
   C. separating financial markets into banks, thrifts, and insurance companies is becoming increasingly difficult to justify.
   D. All of the above.
   E. Answers A and C only.

121. The merger bid premium usually is defined as
   A. the difference between the price paid for the company and the market value immediately prior to the merger announcement.
   B. the ratio of the purchase price of a target bank's equity to its book value.
   C. the difference between the market value immediately prior to the merger announcement and the book value of the company.
   D. All of the above.
   E. Answers A and B only.

122. What are the ways in which an FI can establish a global or international presence?
   A. Selling financial services from its domestic offices to foreign customers.
   B. Selling financial services through a branch, agency, or representative office established in the foreign customer's country.
   C. Selling financial services to a foreign customer through subsidiary companies in the foreign customer's country.
   D. All of the above.
   E. Answers A and B only.

123. Which of the following is a factor deterring U.S. bank expansions abroad?
   A. The dollar as an international medium of exchange.
   B. Political risk concerns among savers in emerging markets.
   C. Domestic regulatory restrictions.
   D. Capital constraints.
   E. Technology and communications improvements.

124. Identify the fundamental regulatory philosophy underlying the International Banking Act.
   A. Too big to fail.
   B. National treatment.
   C. Reciprocal arrangement.
   D. X efficiencies.
   E. Unit banks.

125. What is seen as a reason for the increased expansion of foreign bank activities in the United States following the passage of the International Banking Act?
   A. Access to the Federal Reserve's discount window, Fedwire, and FDIC insurance.
   B. Absence of the Federal Reserve's reserve requirements, audits, and exams.
   C. No interstate branching restrictions.
   D. No restrictions on corporate securities underwriting activities.
   E. Answers C and D only.

126. The establishment of a global or international presence by an FI can be achieved in all but which of the following ways?
   A. Selling financial services from a domestic office to a domestic customer who has commercial activities in a foreign country.
   B. Selling financial services to a foreign customer through subsidiary companies in a foreign country.
   C. Selling financial services through a branch, agency, or representative office.
   D. Selling financial services from domestic offices to foreign customers.
   E. Two of the above do not qualify an FI as achieving an international presence.

127. A Eurodollar transaction
   A. can only occur in Europe.
   B. is a swap of Euros for dollars.
   C. is a transaction that involves dollars outside of the U.S.
   D. is a swap of dollars for Euros.
   E. must be reported immediately to international monetary authorities.

128. The USA Patriot Act of 2001
   A. requires U.S. banks to improve their due diligence reviews to guard against money laundering.
   B. prohibits U.S. banks from providing banking services to foreign banks that do not have a physical presence in any country.
   C. gives to federal authorities the power to subpoena the records of a foreign bank's U.S. correspondent account.
   D. All of the above.
   E. Answers B and C only.

129. Which of the following has NOT been a factor deterring U.S. bank expansion abroad?
   A. The implementation of risk-based capital requirements effective in 1993.
   B. The increased competition from the large Japanese banks through the mid-1990s.
   C. The effects of the collapse of the financial markets in several emerging markets.
   D. The ability of the U.S. banks to achieve large excess capital positions in the second half of the 1990s.
   E. The passage of the European Community Second Banking Derivative.

130. Prior to the International Banking Act of 1978, foreign banks operating with state licenses
   A. were not subject to the Federal Reserve's reserve requirements.
   B. were not subject to interstate branching restrictions.
   C. were not subject to restrictions on corporate securities underwriting.
   D. All of the above.
   E. Answers A and B only.

131. Which of the following was not an operating characteristic of foreign banks operating in the U.S. prior to the International Banking Act of 1978?
   A. They had no access to the Federal Reserve's discount window.
   B. They were not subject to the Federal Reserve's audits and exams.
   C. They had special rates on FDIC deposit insurance.
   D. They could not use the Fedwire or the fed funds market.
   E. They were not subject to the Glass-Steagall Act.

132. Which of the following is not a feature of the Foreign Bank Supervision Enhancement Act?
   A. The Federal Reserve has the power to close a foreign bank if it is engaged in unsafe and unsound banking practice.
   B. The Federal Reserve has the responsibility to examine each subsidiary, branch, agency, or representative office at least once each year.
   C. The Fed's approval is necessary to establish a subsidiary, branch, agency or representative office in the U.S.
   D. Only foreign subsidiaries with access to FDIC insurance can take retail deposits under $100,000.
   E. After December 19, 1992, state-licensed agencies and branches could not engage in any activity no permitted to a federal branch.

133. Which of the following is an advantage to an FI of expanding globally?

A. Exposure to nationalization or expropriation.
B. Economies of scale.
C. High fixed costs.
D. Costs of complying with different regulatory requirements.
E. Information and monitoring costs.

134. Which of the following is a disadvantage of international expansion?

A. An FI can lower its net regulatory burden and therefore increase its potential net profitability by finding countries that have reduced activity restrictions and reserve requirements.
B. An FI can generate additional returns from new product innovations if it can sell such services internationally rather than just domestically.
C. Monitoring and information collection cost often are higher in international markets.
D. International expansion allows an FI to search for cheaper and more available sources of funds.
E. International activities enhance the opportunities to diversify the risk of earnings flows.

135. Which of the following items is an advantage of international expansion for an FI?

A. An FI faces the political risk that a change in government may lead to the nationalization of fixed assets.
B. A global FI must master the rules and regulations of each market in which it operates.
C. The fixed costs of establishing overseas organizations may be very high in certain markets.
D. International expansions allow an FI to maintain contact with and provide service to the needs of domestic multinational corporations.
E. The absolute level of risk exposure in certain markets can be very high.

136. <u>Match each of the following potential conflicts of interest with their corresponding definition or description found in 136 to 141.</u>

1. Using lending power to coerce a customer to purchase or use the products sold by an affiliate	Salesperson's stake ____
2. When a bank suggests the issuance of capital market debt for the purpose of reducing bank loans under conditions of deteriorating or questionable firm financial health	Stuffing fiduciary accounts ____
3. The use of inside information about customers or rivals that can be useful in setting securities prices or distributing securities offerings	Bankruptcy risk transference ____
4. When banks have the power to sell nonbank products, employees may no longer give dispassionate, or unbiased, advice to customers	Third-party loans ____
5. To avoid being exposed to potential losses in a securities offering, a bank may place the securities in the accounts of customers in the trust department or other areas over which it has discretionary investment powers	Tie-ins ____
6. The approval of cheap loans to an investor under the implicit condition that the loan proceeds are to be used to purchase securities underwritten by a securities affiliate	Information transfer ____

Bank	Asset Size
1	$100 million
2	$200 million
3	$500 million

137. What is the market share of Bank 1?
    A. 12.5 percent.
    B. 37.5 percent.
    C. 25.0 percent.
    D. 62.5 percent.
    E. 50.0 percent.

138. What is the market share of Bank 2?
    A. 12.5 percent.
    B. 37.5 percent.
    C. 25.0 percent.
    D. 62.5 percent.
    E. 50.0 percent.

139. What is the market share of Bank 3?
    A. 12.5 percent.
    B. 37.5 percent.
    C. 25.0 percent.
    D. 62.5 percent.
    E. 50.0 percent.

140. What is the market's Herfindahl Hirschman Index (HHI)?
    A. 4,688.
    B. 3,600.
    C. 548.
    D. 8.
    E. 0.

141. If Bank 1 is acquired by Bank 2, what is the impact on the market's HHI?
    A. An increase in the HHI of 1600.
    B. An increase in the HHI of 625.
    C. An increase in the HHI of 1563.
    D. A decrease in the HHI of 222.
    E. A decrease in the HHI of 360.

142. If Bank 1 is acquired by Bank 3, what is the impact on the market's HHI?
    A. An increase in the HHI of 1600.
    B. An increase in the HHI of 624.
    C. An increase in the HHI of 1563.
    D. A decrease in the HHI of 222.
    E. A decrease in the HHI of 360.

143. How do you think the Department of Justice (DOJ) would characterize this market before the merger and which merger is more likely to be approved?
    A. This is a competitive market and either merger will be acceptable to the DOJ.
    B. This is a concentrated market and neither merger will be acceptable to the DOJ.
    C. This is a concentrated market, but the merger between Banks 1 and 3 is more likely to be acceptable to the DOJ.
    D. This is a competitive market, but the merger between Banks 1 and 2 is more likely to be acceptable to the DOJ.
    E. This is a moderately concentrated market, but the merger between Banks 1 and 3 is more likely to be acceptable to the DOJ.

The following three FIs dominate a local market and their total assets are given below.

Institution	Asset Size
Bank A	$50 million
Bank B	$60 million
Bank C	$90 million

144. What are the market shares of banks A, B and C, respectively?
A. 25 percent, 45 percent, and 30 percent.
B. 30 percent, 40 percent, and 30 percent.
C. 40 percent, 30 percent, and 30 percent.
D. 25 percent, 30 percent, and 45 percent.
E. 25 percent, 35 percent, and 40 percent.

145. What is the Herfindahl-Hirschman Index (HHI) for the local market?
A. 1,000.
B. 3,450.
C. 3,550.
D. 3,400.
E. 60.

146. If Bank A acquires Bank B, what is the new Herfindahl Index?
A. 60.
B. 100.
C. 5,800.
D. 5,050.
E. 6,525.

147. Under the 1982 guidelines, would the Fed approve the merger of Banks A and B?
A. It is likely to approve because it is not a concentrated market.
B. It is unlikely to approve because the post merger HHI has increased by over 100.
C. It is likely to approve because the post merger HHI has increased by over 100.
D. Likely to approve because the post merger HHI has increased by less than 5,000.
E. It is unlikely to approve because the post merger HHI has increased by over 5,000.

148. If Bank A acquires Bank C, what is the new Herfindahl Index (HHI)?
A. 60.
B. 100.
C. 5,800.
D. 5,050.
E. 6,525.

149. Under the 1982 guidelines, would the Fed approve the merger of Banks A and C?
A. It is likely to approve because it is not a concentrated market.
B. It is unlikely to approve because the post merger HHI has increased by over 100.
C. It is likely to approve because the post merger HHI has increased by over 100.
D. Likely to approve because the post merger HHI has increased by less than 5,000.
E. It is unlikely to approve because the post merger HHI has increased by over 5,000.

150. If Bank C splits into two separate institutions at ½ its original size each, what is the new Herfindahl (HHI) Index?
A. 60.
B. 340.
C. 2,538.
D. 2,847.
E. 10,000.

151. If Bank C agrees to be purchased by Banks A and B, what proportion of assets of Bank C should be taken by Banks A and B, respectively in order to have equal post-merger assets?

A. 52 percent and 48 percent.

B. 50 percent and 40 percent.

C. 56 percent and 44 percent.

D. 40 percent and 50 percent.

E. 45 percent and 55 percent.

ch21 Key

1. FALSE

2. TRUE

3. TRUE

4. TRUE

5. TRUE

6. TRUE

7. TRUE

8. TRUE

9. FALSE

10. TRUE

11. TRUE

12. TRUE

13. FALSE

14. FALSE

15. FALSE

16. TRUE

17. FALSE

18. TRUE

19. TRUE

20. FALSE

21. FALSE

22. TRUE

23. FALSE

24. TRUE

25. TRUE

26. TRUE

27. TRUE

28. FALSE

29. TRUE

30. FALSE

31. FALSE

32. TRUE

33. TRUE

34. TRUE

35. TRUE

36. TRUE

37. TRUE
38. FALSE
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49. TRUE
50. TRUE
51. FALSE
52. TRUE
53. TRUE
54. TRUE
55. FALSE
56. TRUE
57. TRUE
58. TRUE
59. TRUE
60. TRUE
61. E
62. E
63. B
64. E
65. D
66. B
67. B
68. E
69. B
70. D
71. C
72. E
73. D
74. E

75. A

76. E

77. C

78. A

79. B

80. A

81. B

82. E

83. C

84. D

85. B

86. D

87. A

88. B

89. C

90. D

91. E

92. C

93. C

94. E

95. B

96. A

97. A

98. A

99. E

100. D

101. B

102. D

103. B

104. C

105. A

106. B

107. D

108. A

109. D

110. B

111. E

112. E

113. E

114. B

115. E

116. D

117. A

118. D

119. B

120. D

121. B

122. D

123. D

124. B

125. A

126. A

127. C

128. D

129. D

130. D

131. C

132. B

133. B

134. C

135. D

136. When banks have the power to sell nonbank products, employees may no longer give dispassionate, or unbiased, advice to customers :: Salesperson's stake *and* To avoid being exposed to potential losses in a securities offering, a bank may place the securities in the accounts of customers in the trust department or other areas over which it has discretionary investment powers :: Stuffing fiduciary accounts *and* When a bank suggests the issuance of capital market debt for the purpose of reducing bank loans under conditions of deteriorating or questionable firm financial health :: Bankruptcy risk transference *and* The approval of cheap loans to an investor under the implicit condition that the loan proceeds are to be used to purchase securities underwritten by a securities affiliate :: Third-party loans *and* Using lending power to coerce a customer to purchase or use the products sold by an affiliate :: Tie-ins *and* The use of inside information about customers or rivals that can be useful in setting securities prices or distributing securities offerings :: Information transfer

137. A

138. C

139. D

140. A

141. B

142. C

143. B

144. D

145. C

146. D

147. B

148. C

149. B

150. C

151. C

ch21 Summary

Category	*# of Questions*
Saunders - Chapter 21	153