

The last one! (Except for Seniors taking comps, for whom this is optional.\*)

Place your name on the back of this sheet of paper and nowhere else. Staple your answers on the front of this sheet of paper. Failure to follow these directions will cost you 1 point. Your assignment will be typed, except graphs can be drawn by hand and mathematical equations can be done by hand. Failure to type it will cost you 10 points. If you use double-sided printing or print on the back of scrap paper, I will give you one additional point.

- 1) (20 points) Explain how interest rate ceilings can cause shallow finance. Why is that a problem?
- 2) (15 points) In 2000, Russia's required reserve ratio was 20%. Now it varies depending upon the type of deposit, but I believe all of them are under 4%. Do you think that policy change was good or bad? Explain your logic.
- 3) (20 points) Explain why most developing countries have some sort of a pegged interest rate. What is the disadvantage of this policy?
- 4) (15 points) Jagdish Bagwati explains that financial panics in one country can cause financial problems for other countries. Explain how this can happen. Why is that an argument against opening up the financial markets to more world competition?
- 5) (15 points) Why is high inflation bad if you want deep finance?
- 6) (15 points) What is moral hazard? How can the recent bailouts of the banking industry worsen the problem?

\* They will take the fourth exam on Chapters 12 and 13 near the end of the week and will hand in their paper on Friday by 3:00. Their review sheet will be the past year's review sheet.