

## The Last One!

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 the increase in interest rates led to the Savings & Loan Crisis in the 1980s. How did FSLIC insurance exacerbate the problem?
- 2) (10 points) Credit unions normally pay higher interest rates than other financial institutions and charge lower interest rates on their loans. How can they do that?
- 3) (10 points) What is meant by a “sales finance institutions”? Why would a company set up such an institution?
- 4) (10 points each) For each of the following risks faced by a financial institution, explain what it means and give an example of how the financial institution be hurt.
  - A) credit risk
  - B) liquidity risk
  - C) interest rate risk
  - D) market risk
  - E) off-balance-sheet risk
  - F) foreign exchange risk