Name:________________________

Econ 444: Bunting
CW 5.9: Asymmetric Information, More

You are manager of Dave's FunTime Bar and Grill.

1. Why would you worry about adverse selection when hiring new bartenders and servers? What could you do to prevent adverse selection when hiring these employees?

2. Why would you worry about moral hazard after hiring new bartenders and servers? What could you do to prevent moral hazard after hiring these employees?

3. How can the existence of adverse selection and moral hazard explain the principle agent problem?

Name:______________________

Econ 444: Bunting
CW 6.2 Balance Sheet Management

Given the following information for Eagle Bank: Equity 20, Securities 70, Savings deposits 10, Personal Loans 40, Retained earnings 20, Time deposits 30, Home mortgages 60, Demand deposits 100.

Do the following:

1. Setup the balance sheet for Eagle Bank when reserve requirement are 10%.

2. Suppose a loan of 10 defaults. Show the adjustments in the balance sheet

3. Suppose there is a demand deposit withdrawal of 40. List three balance sheet management activities that might be taken to balance Eagle's accounts. Show the effects of these activities on separate balance sheets.

4. Rank the activities by most desirable to least desirable, providing reasons for the ranking.

[Use back if necessary]