

Problem set 2  
266: Fi. Markets and Institutions  
Spring 2014  
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**Directions.** You are to do this problem set alone.

**Due Date/time.** Your work is due by beginning of class (10:30am) April 22. You can hand the work in to me at the beginning of class. If you put the work under my office door, it must be in before I leave for lecture at about 10:20 am.

**Questions.** If you have questions, email me or one of the TAs, raise them in class, or come to office hours.

**Grading.** All parts have equal value.

**Note:** Be sure to note the proper units (e.g., millions, billions, etc.) in the following answers.

1 Screwing up, perhaps in criminal manner. Provide a brief answer to each of the following. (Hint: you should be able to find these answers easily using standard web search tools.)

1.1 Firms in a strong position screwing up:

1.1.1 What market did Overend, Gurney, and Company develop and dominate? How did they go broke?

1.1.2 What market did Salomon Brothers dominate for many decades?  
What scandal was part of its downfall?

1.1.3 What market did Drexel Burnham Lambert help develop  
and then dominate? What scandal played a large role in its  
downfall?

## 1.2 More general mischief

### 1.2.1 What was Barings Bank and why did it fail?

### 1.2.2 What is Libor? And the Libor Scandal? (hint: google libor scandal)

1.2.3 What is HSBC? How did it aid drug cartels? (hint: google HSBC drug cartels)

## 2 Reading a 10-k report.

Obtain the latest 10-k report for JPMorgan Chase (covering 2013). (Hint 1: i) go to <http://www.sec.gov/>, ii) Under 'filings' in the top bar, choose 'Company Filings Search', iii) In the Fast Search box, put JPM and search; iv) in the Filing Type box put 10-k and hit search.)

(Hint 2: If the question has a phrase in 'single quotes,' searching for this phrase in the 10-k may help you.)

2.1 Find the table summarizing business segments (search for 'BUSINESS SEGMENT RESULTS' repeatedly until you see the table. What 4 business segments does JPM report?)

2.2 From same table as previous part, what 3 business lines are reported under ‘consumer and community banking’?

2.3 What was the total net revenue of the ‘Corporate and Investment Bank’ segment in 2013? What segment had the highest total net revenue?

2.4 What does JPM report it must do regarding a ‘resolution plan’ under the Dodd Frank Act?

- 2.5 What does JPM report at 'return on common equity' for each of the last 5 years?
- 2.6 What does JPM report at 'return on assets' for each of the last 5 years?
- 2.7 Name three functions listed for the 'country risk management group.'

### 3 Value at Risk (VaR).

3.1 If a firm says that its 1-day 95 percent value at risk is \$100 million, what does this mean?

3.2 According to the JPM 10-k examined above, on how many trading days in 2013 did trading losses exceed the 95 percent one-day VaR computed by the firm? (Hint: Search for ‘value-at-risk’ repeatedly until you find the info.)

3.3 Of the 260 trading days reported for 2013 on how many did JPM report trading gains? (Hint: read the VaR discussion.)

4 Mutual funds. Get the ICI factbook ([http://www.icifactbook.org/pdf/2013\\_factbook.pdf](http://www.icifactbook.org/pdf/2013_factbook.pdf)). You should be able to find the following by searching sensible terms in this pdf document.

4.1 Describe in general terms the investment strategy of an ‘index fund’

4.2 At year end 2012, what proportion of all money in ‘index funds’ was in mutual funds with returns indexed to the S&P 500?

4.3 What share of U.S. households held mutual funds in the following years: 1980, 1990, 2000, 2010?