

Problem set 2  
266: Fi. Markets and Institutions  
Spring 2015  
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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) March 26. 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 Reading a 10-k report.

Obtain the latest 10-k report for JPMorgan Chase (covering 2014). Directions: 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: If the question has a phrase in 'single quotes,' searching for this phrase, perhaps repeatedly, in the 10-k will generally get you to the answer.)

1.1 Other than the 'Board of Governors of the Federal Reserve System', name three additional regulatory authorities JPM lists when discussing its standing as a 'bank holding company' and financial holding company?

1.2 What is the 'Bank Secrecy Act' and what did JPM establish to comply with the requirements?

1.3 How has JPM performed relative to the indices examined in the 'FIVE-YEAR STOCK PERFORMANCE' table and chart (not looking for values, just relative position)?

1.4 What event happened on September 10, 2014, that JPM discusses in the document?

1.5 What does JPM report as the value of 'High quality liquid assets' for each of the last 5 years?

1.6 What does JPM report as the value of 'Total capital ratio' for each of the last 5 years?

2 Value at Risk (VaR). (Hint: read the VaR, 'value-at-risk,' discussion in the JPM 10-k.)

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

2.2 According to the JPM 10-k examined above, on how many trading days in 2014 did trading losses exceed the 95 percent one-day VaR computed by the firm? (Hint: Search for 'value-at-risk' and/or 'band break' repeatedly until you find the info.)

2.3 Of the 260 trading days reported for 2014 on how many did JPM report trading gains?

3 Running a *fair* and *competitive* market is hard.

3.1 What is a bucket shop? Why were they made illegal about a century ago?

3.2 Briefly explain the NASDAQ collusion case of the mid-1990s. (Hint: google NASDAQ collusion) What was the settlement?

3.3 What is the LIBOR rate? Briefly explain the LIBOR fixing scandal. Name 3 firms involved. (Hint: google LIBOR scandal)

3.4 Explain the foreign exchange price fixing scandal? Name 3 firms involved. (Hint: google FOREX scandal)

3.5 Briefly explain what a ‘dark pool’ is. What is the dark pool scandal? (Hint: google dark pool scandal)

4 Troubled asset relief program (TARP). TARP was enacted with the goal of stabilizing the economy at the height of the crisis. TARP has been extremely controversial with traditional liberals criticizing it as a handout to corporate fat cats and free market conservatives criticizing the government’s unwillingness to let market forces rule. Supporters often take the position that TARP was the lesser of the evils on the table at the time—that some rapid and large government action, distasteful as it would be, was needed to reduce the risk of a Great-Depression-style collapse. Reasonable people disagree on these issues and you should form your own opinion.

This question focusses mainly on some of the facts.

4.1 TARP involved the government providing capital to firms in return for certain claims. What was the total capital that could be provided under TARP, both under the original legislation and as later amended.

- 4.2 The Congressional Oversight Panel for TARP reported in 2009 on the present value of the financial claims the government received for the capital provided. How much value did the oversight panel assess that the government got for each dollar in capital provided? (Hint: try: <http://cybercemetery.unt.edu/archive/cop/20110401232131/http://cop.senate.gov/reports/library/report-020609-cop.cfm>.)
- 4.3 Late last year, the government unwound the last of the TARP investments. Approximately what was the net direct costs of TARP (funds invested vs. funds received)?
- 4.4 Does the answer to the previous question resolve the matter of whether TARP was a good idea? Why or why not?