

Problem set 2
266: Fi. Markets and Institutions
Spring 2016
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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 31. 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.

Please pay attention: We have divided up two of the questions below such that certain folks are assigned the even numbered parts and others are assigned the odd numbered parts. As you'll see, this allows us to cover more cheats, screw ups, and scandals in total.

1 Reading a 10-k report.

Obtain the latest 10-k report for JPMorgan Chase (covering 2015). 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; v) Under the Format heading, select Documents; click on the Form 10-K.)

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.

- 1.6 What effect does JPM expect the Dec 2015 increase in the federal funds will have on ‘net interest margin’ during 2016?

 - 1.7 What does JPM report as the value of credit exposure to the ‘Oil & Gas’ industry, in dollar value as well as percent of the firm’s credit exposure? What is the dollar value of ‘provision for credit losses’ in 2015 and 2014?

 - 1.8 What does JPM report as the value of ‘Return on common equity (ROE)’ 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 2015 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 2015 on how many did JPM report trading gains?

3 Screwing up, perhaps in criminal manner. Provide a brief answer to each of the following. You should be able to find these answers easily using standard web search tools.

Note: If your last name begins with A–J, do the even numbered parts. Otherwise to the odd.

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

3.2 What market did Drexel Burnham Lambert help develop and then dominate? What scandal played a large role in Drexel's downfall?

3.3 What was Barings Bank and why did it fail?

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

3.5 What is BNP Paribas? What criminal charge did the firm recently plead guilty to?

3.6 What alleged fraud led Goldman Sachs to pay a fine of over \$500 million? And who was the 'Fabulous Fab.'?

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

Note: If your last name begins with A–J, do the even numbered parts. Otherwise to the odd.

4.1 Briefly explain the Salomon Brother's Treasury auction scandal.

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

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

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

4.5 Briefly explain what a 'dark pool' is. What is the dark pool scandal? (Hint: google dark pool scandal)

4.6 Michael Lewis wrote a book called Flash Boys. Sketch the alleged manner in which U.S. markets were exploited. (Hint: google flash boys)

5 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.

5.1 What did the government receive in return for the TARP payments that were given out?

5.2 How much did the government make or lose on the TARP program? (That is, direct financial gains or losses. This does not count any indirect economic benefits or cost of the program. Estimates vary a bit on this. If you are concerned, just indicate your source.)