**Tutorial 2: Questions**

1. What is the main function of financial markets? Who is usually better off in case of well-functioning markets? Explain your answer.

2. If I can buy a car today for $5,000 and it is worth $10,000 in extra income next year to me because it enables me to get a job as a traveling anvil seller, should I take out a loan from Larry the loan shark at a 90% interest rate if no one else will give me a loan? Will I be better or worse off as a result of taking out this loan? Can you make a case for legalizing loan sharking?

3. Compare the performance of the emerging markets in Southeast Asia and the developed markets in Western Europe in light of the recent global economic downturn.

4. In May 2017, the world’s first bond linked to the U.N. Sustainable Development Goals (SDG) had been issued by the World Bank, which helped it raise €163 million from investors in France and Italy and will be used in projects aimed to eliminate extreme poverty. Why do you think debt instruments are important?

5. How are Eurodollars similar to Eurobonds? How are these related to Eurocurrencies?

6. What are the risks and rewards of investing in the stock market as compared to the bond market?

7. Explain the problem of adverse selection created by asymmetric flow of information. Use an example to illustrate your answer.

8. Lisa is planning to purchase a new house and is looking for a home loan that will give her the lowest interest rate. Discuss how she can be affected by asymmetric information and adverse selection.

9. Why do loan sharks worry less about moral hazard in connection with their borrowers than some other lenders do?

10. How does the presence of asymmetric information in the direct selling market lead to consumers not buying the products?

11. What is an adverse selection? How is it usually created in financial markets?

12. “Financial intermediaries play a crucial role in an economic crisis–they are responsible for both causing the market to crash and then helping it recover from the crisis.” Is this statement true? Discuss with an example.

13. How do financial intermediaries solve the problem of adverse selection?

14. What is a main function of investment banks? Do such banks accept deposits and provide loans?

15. What is the main purpose of financial regulation? What kind of instruments may a government use to protect the economy and country from financial panic?