

# SO YOU THINK YOU UNDERSTOOD THE FINANCIAL CRISIS...

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The financial crisis has affected many of us personally and professionally. Many of us have watched our portfolios collapse, recover, and then begin teetering again. Following is a quick quiz to test how much scar tissue you have built up and whether you've maintained your sense of humor.

1. Of the original "Big Five" investment banks (Bear Stearns, Goldman Sachs, Lehman Brothers, Merrill Lynch, and Morgan Stanley), how many remain in the same form as in 2007?
  - A. None
  - B. Two
  - C. Three
  - D. Four
2. Why has the German government banned the practice of "naked" short selling?
  - A. "Business casual" taken to extremes is contributing to moral decline in financial districts
  - B. It allows major investment banks to trade on financial markets more quickly than individual investors can
  - C. The German financial regulator claims it leads to excessive price swings that jeopardize the stability of the world financial system
  - D. Bundling risky assets into pools and then creating derivatives based on them is one of the practices responsible for the financial crisis
3. Which of the following was a major factor contributing to the seizure of the auction rate securities market?
  - A. Investment banks accommodated short sellers' preferences in choosing collateral
  - B. There was a lack of high enough numbers to express the promised interest rates on offering circulars (i.e., the U.S. SEC forbids use of scientific notation)
  - C. Banks were overexposed to Greece
  - D. Major investment banks chose to stop acting as buyers of last resort during the auction process in order to protect their own capital
4. What is the VIX a measure of?
  - A. Interbank borrowing rates
  - B. Weighted bond maturity
  - C. Dividend yield
  - D. Volatility
5. What does TARP stand for?
  - A. Teachers' Administrative Resource Program
  - B. Troubled Asset Relief Program
  - C. Transnational Antifraud Research Program
  - D. Target Annuity Research Plan
6. After AIG was bailed out by the United States, it made payments to global banks located in which countries?
  - A. France, Germany, Switzerland, and the United States
  - B. Japan, Singapore, and Brazil
  - C. Spain, Greece, Portugal, and Ireland
  - D. None: No banks received payments from AIG after its bailout
7. The losses suffered by governments and financial institutions during the financial crisis were "beyond the pale." In which heavily indebted European country did this phrase originate?
  - A. Portugal: The "pale" is the hold of an oceangoing vessel. "Beyond the pale" means "more unpleasant than the pale."
  - B. Ireland: The "pale" was a region surrounding Dublin where English laws could be enforced. "Beyond the pale" means outside the area where the law applies.
  - C. Greece: The "pale" is a mystical amulet used in ancient divination ceremonies. "Beyond the pale" refers to situations beyond the forecasting capabilities of the amulet.
  - D. Spain: The "pale" refers to the northern Europeans who descend on Spain's southern Andalusia region every summer. "Beyond the pale" refers to their lack of melanin.

8. What did U.S. Treasury Secretary Henry Paulson estimate the U.S. government's total social insurance liabilities to be in his 2007 United States "Annual Report"? (According to the U.S. Department of Commerce, 2009 GDP was \$14.3 trillion.)
- A. \$6.09 trillion
  - B. \$23.32 billion
  - C. \$45.02 trillion
  - D. \$108.24 trillion
9. On May 24th, 2010 how much did it cost to insure \$10 million in U.S. government debt against default for five years? (A basis point [bp] is 1/100 of a percentage point.)
- A. 10 bps a year
  - B. 40 bps a year
  - C. 80 bps a year
  - D. No such insurance exists: There is no possibility of the U.S. government defaulting
10. On 16 September 2008, the Reserve Primary Fund "broke the buck." What does that phrase mean?
- A. During a *krumping* competition, one of the fund's managers performed a dance move so intimidating that it unseated the "buck" as the premier method of dance fighting.
  - B. By renegeing on a financing agreement with the Biloxi, Mississippi ("Buck City") city council, the fund allegedly forced Biloxi into default. The Biloxi/Gulfport *SunHerald* led with the headline "Reserve Breaks the Buck" the next day.
  - C. In response to a decline in value of the funds' assets, trustees of the fund opted to allow the share price to fall below \$1.00 rather than to use the firms capital to make shareholders whole.
  - D. As the financial crisis intensified, the fund's management drank their local chain coffee store out of stock.

Answers: 1:A, 2:C, 3:D, 4:D, 5:B, 6:A, 7:B, 8:C, 9:B, 10:C

**Are you a market guru or does this all seem like voodoo? Tally your scores to see how you did.**

1–2 correct: You should leave your credit cards and checkbook at home, in a safe.

3–7 correct: You clearly crack the business section of the newspaper from time to time. Good work.

8–10 correct: You dodged the residential real estate crisis, sold financials short in 2007, and always wondered why people loved AAA structured securities.

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**For more information, please consult <http://www.cfainstitute.org/about/investor/>**

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