1. **What are Fed dollars and bank dollars? How do they differ? What are the different ways of making payment with each?**
2. **What is float? How does it affect the efficiency of the payments system? How does it affect the efficiency of the economy? How does it affect the profits of banks? What could be done to eliminate or to reduce it?**
3. **The probability of (total) loss is 5 in a thousand. The average lag between premium and claim is 3 months.**
   1. **What is the pure premium per $1000 coverage if the interest rate is 10%? 5%?**
   2. **If $1 billion of insurance has been written, what is the amount of investible reserves?**
4. **Compare and contrast the structure of the insurance industry with that of the banking industry. Discuss economies of scale and scope and how they are realized; integration, concentration, and competition; and regulation. Why do the structures of the two industries differ?**

**6. Why does catastrophe insurance present a challenge for the insurance market?**

* 1. **Is catastrophe risk insurable?**
  2. **Why do catastrophe risk present problems of liquidity? Why can’t private insurers or reinsurers solve this by borrowing?**
  3. **What are the alternative methods of handling the risk? Discuss their advantages and**

**disadvantages.**

* 1. **Should catastrophe insurance be compulsory? Is there a moral hazard problem?**

1. **Why are employers involved in the retirement saving of their employees? What are the advantages to each of the parties? What part of your answer applies to cash balance plans? Explain.**
2. **What is the difference between an exchange-traded fund and a closed-end fund? Why doesn’t the former suffer from the problems of the latter?**