Assume that there are two banks in your area, Bank C and Bank NSC. Assume also that both are federally chartered banks, meaning that they are both subject to periodic examination and have their deposits insured by the FDIC. Also, assume that the deposit insurance coverage limit is $250,000. Both banks are sufficiently large to tend to any banking need that you may require. Assume, however, that you are not particularly interested in borrowing money in the near future.

Bank C is a very conservatively managed bank. It never has to borrow from the Fed’s discount window or go into the Fed Funds market to borrow. It regularly holds excess reserves. It is also a friendly bank and provides very good and efficient service, but does everything “by the book.” Bank NSC, on the other hand, is not so conservative. In fact, in its mission statement, it indicates its goal of being the largest commercial lending institution in the state. It has experienced very rapid growth in the last three years. Loan officers in this bank are fun guys—they don’t even own a tie, much less a vest. If you want to borrow money from them, they can and will move much more rapidly than Bank C—again, they are not so hung up on details.

**A**. Assume that you have $200,000 that you **must** place in one of the banks. Which bank would you choose, and why? Note: This is a thought/reasoning question—meaning that if your choice isn’t well reasoned, it ain’t worth nothing.

**B.** Now, take the same set of givens as above, but assume that there is no deposit insurance. Again, everything is the same, except for the absence of deposit insurance. Now, in which bank would you deposit your $200,000? Explain!

**C**. Now, considering the A and B scenarios, and also having read some material from our trusty text, what is the moral to the story? Explain!