Money and banking

Finance

Money And Banking 2. The moral hazard that may arise due to the actions of the insurance company is that individuals will become very careless because they may perceive that they do not need to worry since the insurance companies will pay for all of their losses (Thomas 269). The adverse selection that may take place due to insurance companies providing restriction less insurance is that individuals may themselves try to cause fire and then claim for damages.

5. The benefit of the adoption of too-big-to-fail policy is that banks will take less stress and may invest in decisions that may be risky but may result in higher benefits and profits. The disadvantage of this policy is that this may make banks indulge in actions that can be considered as moral hazard. These actions may include increasing indulgence in risky investments because they may perceive that they are covered and losses will be paid for. Another disadvantage is that smaller banks may not be able to compete against larger banks and this may be regarded as a discriminatory policy.

8. The United States injected money in the largest banks for the purpose of providing smaller banks from taking over or merging with the smaller ones and even to indulge in the decision making of these banks. This is because several huge banks had indulged in risky practices such as investing money in risky investment options and due to this these banks were on the verge of bankruptcy and this could have led to risking the money of the depositors.

9.

Works Cited

Thomas, Lloyd Brewster. Money, Banking, And Financial Markets. Mason, Ohio: Thomson/South-Western, 2006. Print.