Answer the following macroeconomic questions

ASSIGN BUSTER

Macroeconomics Using the collapse of the subprime mortgage market in the U. S., describe the components of good management and how regulation can contribute to prudent lending or encourage excessive risk taking. (What forms of discrimination are to be encouraged.) The collapse of subprime mortgage crisis has put the U. S. economy at worst however, various lessons have been learnt. One of the lessons learnt by the institutions and industry is related to good management. Most of the investments made in the U. S. mortgage industry were made without considering the possible results in future and were purely based on market speculations. It is important for management to understand the various factors like risk management, risk diversification, market supply demand etc before making important investments. One of the major factors which led the mortgage crisis in the U. S. is the failure of the regulations in the U. S. mortgage and derivative markets. Actually, the regulations contribute to prudent lending or encourage excessive risk taking by increasing the confidence level of investors in the system which is highly controlled and regulated. However, the old regulations have become ineffective in the current global financial system and there is a need to bring change in the old regulations by introducing new ones. The incompetent and dishonest players are harming the consumers and mortgage broking sector and very few barriers have been made to keep them out of this industry. Therefore, through regulations, the competent and incompetent participants need to be distinguished so that a strong and stable system could be built. This will surely encourage the investors to take risks and increase their confidence in the industry. What is the significance of the large increase in excess reserves held by the banking system? In the current financial system, borrowing appears to be difficult or expensive for banks, therefore, banks desire to achieve significant liquid assets including the excess reserves (Wheelock). Large increase in excess reserves allows flexibility to banks in the case of unseemly developments. For example, in the recent financial crisis, the demands of banks for excess reserves increased as banks were reluctant to make loans to other banks. Through ensuring large increase in excess reserves in the banking system, the banks not only increase their flexibility but also reduce their liquidity risks. Reference Wheelock, David C. How Not to Reduce Excess Reserves. November 2009. 20. July 2011 .