

Problem set 6 (October 14, 2016)

Let's take a break from solving exercises and discuss a few issues related to moral hazard in banking.

Answer the following questions.

- 1) What is moral hazard?
- 2) What forms does moral hazard take in banking? Who are the Principals and the Agents?
- 3) What are the social costs of moral hazard in general?
- 4) What are the social costs of moral hazard in the banking sector?
- 5) What are the possible regulatory solutions to moral hazard? What are the costs of regulation?
- 6) Are there instances in which moral hazard is a result of regulation?