

## **Banking and Insurance (pg. 609 – 614 in 7e)**

### **The banking industry**

- Assets and Liabilities
- “lend long, borrow short”
- Fractional Reserve Banking
- Demand Deposit
- Certificate of Deposit (CD)
- Loans, reserves, interest
- Liquidity crisis
  - Run on the Bank
  - Herd Behavior
    - When is Herd Behavior Rational?
- Solvent and Insolvent Banks
  - Bankers as risk adverse.....
  - Bankers as risk takers....
  
- Risk vs. Uncertainty
  - Determinants of risks.
- Inflation (see later parts)
- Determinates of the interest rate?
  - Inflation
  - Collateral assets
  - Length of loan
  - Credit history

### **The Insurance industry**

- Risk vs. uncertainty
  - Risk aversion (risk neutral, risk takers)
  - Calculating Risk
    - Calculating Uncertainty
- Actuarial tables
  - The law of large numbers
- The problems of
  - Covariance
  - Moral Hazard
  - Adverse Selection
  
- Insurance as a betting market
  - Re-insurance and global warming

What problem with insurance (if any) do each of the following deal with?

- Premiums
- Co-pays
- Liability limits
- Deductibles

