

ECO 798
The Economics of Emerging Financial Markets
Quiz #1

1. What is Financial Repression?

Government interference (restrictions/subsidies) in the financial system that does not allow the system to operate at its full potential.

2. Name 3 types of financial repression.

a. *Reserve Requirements*

b. *Deposit Rate Ceilings*

c. *Restrictions on Capital Outflows*

3. What is an interest rate ceiling?

A maximum interest rate that can be paid on deposits and set by the government (type of price ceiling)

4. Explain the consequences of interest rate ceilings (the effect on savings, borrowing, bank profits, financial development).

- *Discourages savings at banks*
- *Reduction in deposits causes banks to charge higher loan rates, which decreases loans*
- *High loan rates and low deposit rates increases bank profits (if disintermediation does not occur)*
- *Discourages intermediation through the financial system and therefore discourages financial development*